



# INVESTING & THE TSP

*Section 5*



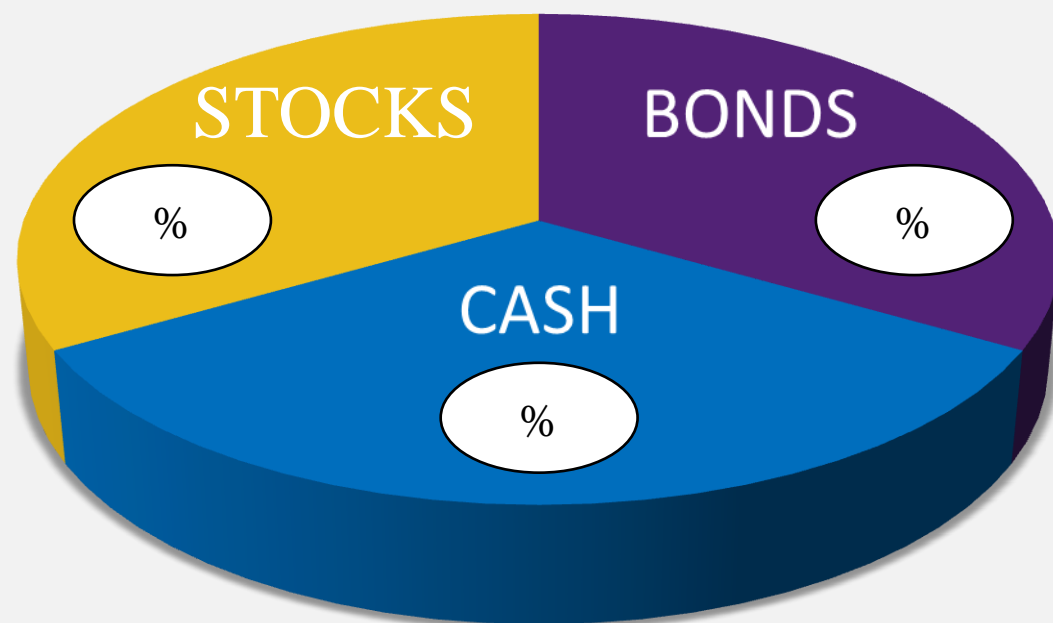
# THE TRUTH ABOUT INVESTING



# THE TRUTH ABOUT INVESTING

*Asset Allocation Decision*

Percentage of Stocks-Bonds-Cash in the Portfolio



# THE TRUTH ABOUT INVESTING

Market Timing	2.10%
Security Selection	4.60%
Other	1.80%
Asset Allocation Policy	<u>91.50%</u>
Portfolio variability	100.00%

# INVESTMENT FUNDAMENTALS

## *3 General Rules for Successful Investing*

1. Determine your objectives

2. Evaluate the risk

- Inflation
- Interest Rate
- Economic
- Market
- Specific

3. Diversify

# INVESTMENT FUNDAMENTALS

## *Three Primary Asset Classes*



Stocks



Cash

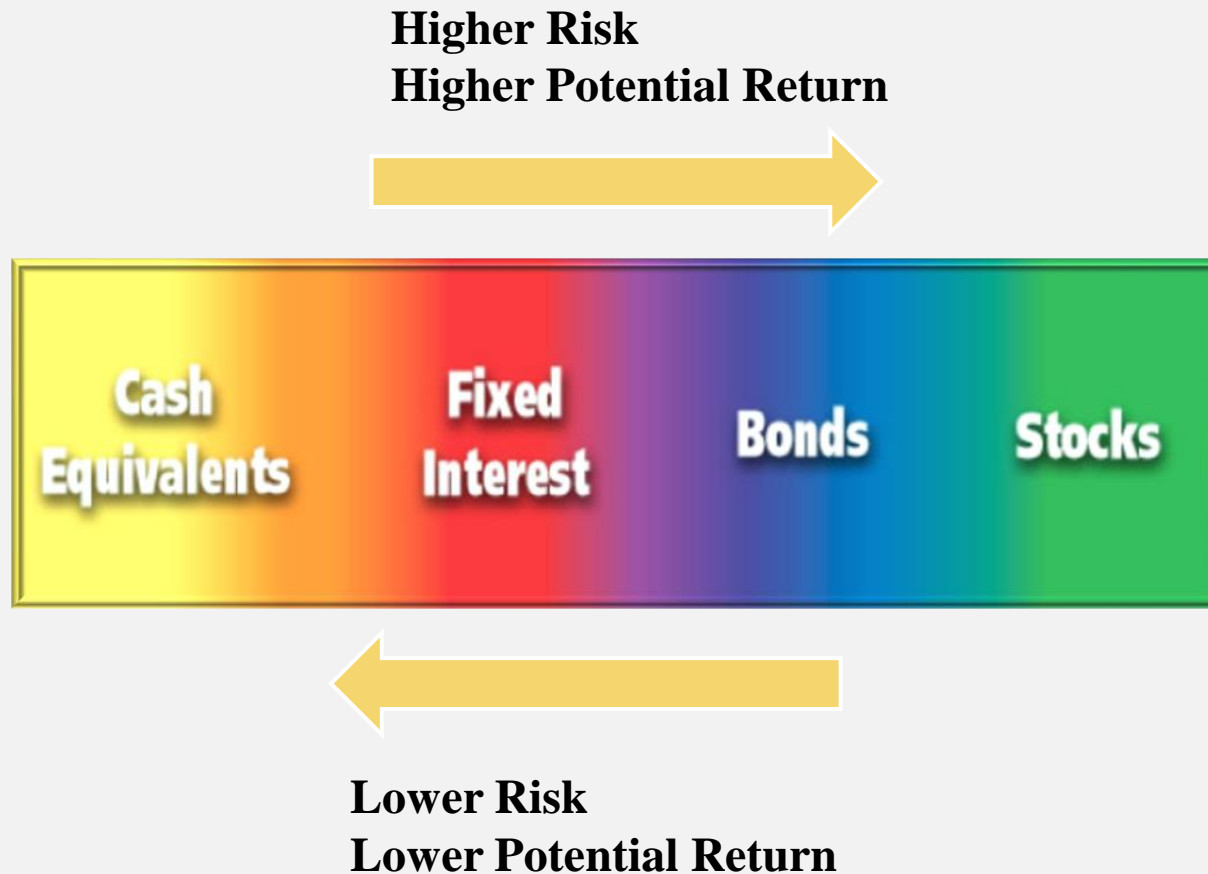


Bonds

# INVESTMENT FUNDAMENTALS

*What does Asset Class mean?*

A group of securities that exhibit similar characteristics, behave similarly in the marketplace, and are subject to the same laws and regulations.



# INVESTMENT FUNDAMENTALS

## *Types of Bonds*

- U.S. Government
- Foreign Government
- Municipal
- Corporate

## *Key Characteristics of Bonds*

- Safety; rating of the issuer
  - Duration\*; length of time to maturity  
(\*longer duration > risk)
  - Yield; interest rate
  - Ratings; S&P: AAA-D
- 
- \*Bonds may be issued in duration ranging from 1-day to 30 years or longer.





# INVESTMENT FUNDAMENTALS

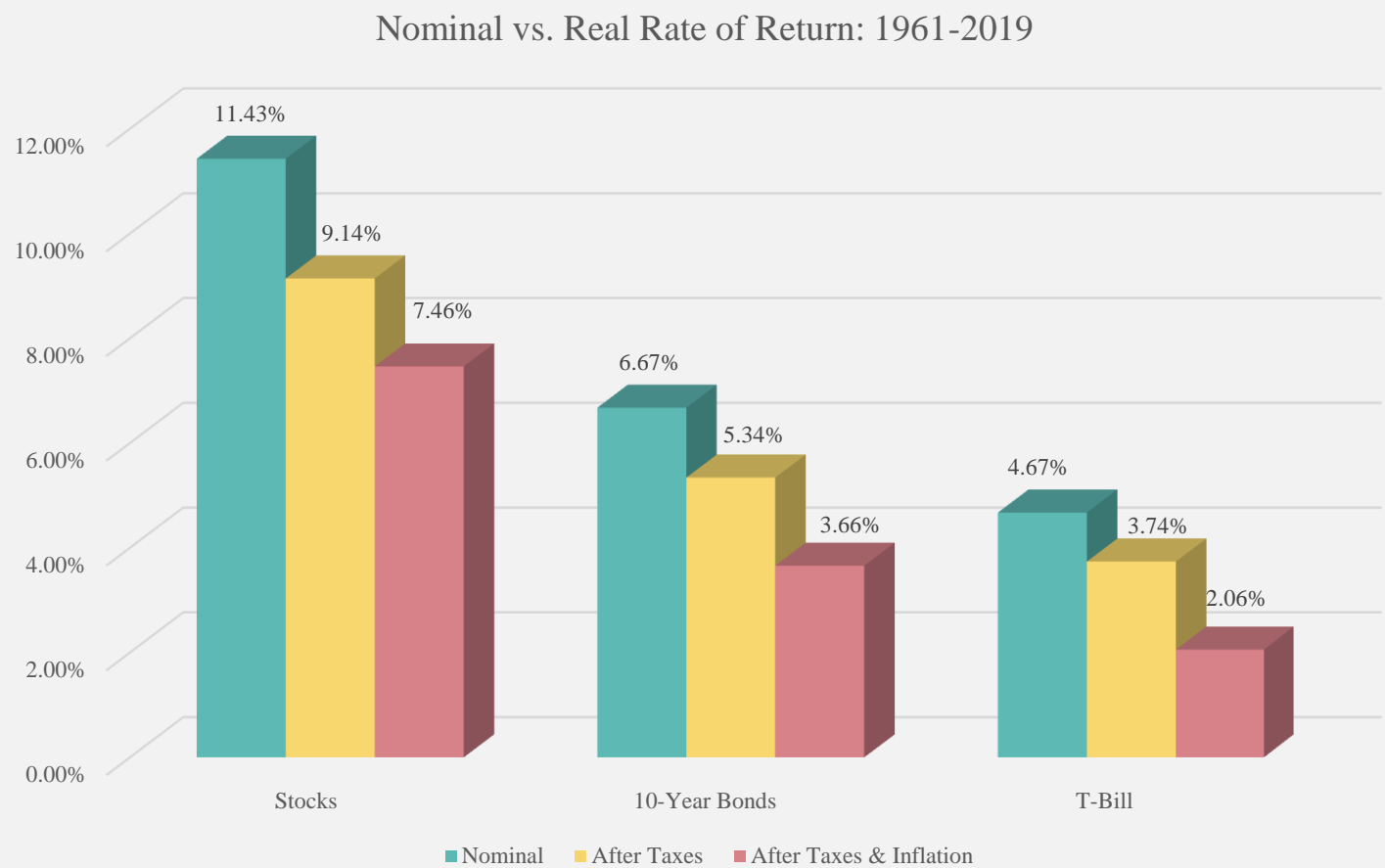
## *Cash Equivalents*

- U.S. Treasury bills
- Money-market accounts
- Certificates of deposits
- Bank or Credit Union savings accounts



# INVESTMENT FUNDAMENTALS

## Investment & the TSP



Stocks: S&P 500 (Inc. Dividends); Bonds: LT US Government 10-year; T-Bills: Yields of 3-Month Treasury Bills. Source: NYU Stern School of Business

Assumes a 20% Tax Rate and  
2.1% Inflation

# INVESTMENT FUNDAMENTALS

## *7 Major Asset Classes & the TSP*

1. US stocks (C & S Fund)
2. US bonds (F Fund)
3. Cash (G Fund)
4. Foreign stocks (I Fund)
5. Foreign bonds
6. Real estate
7. Commodities



# INVESTMENT FUNDAMENTALS

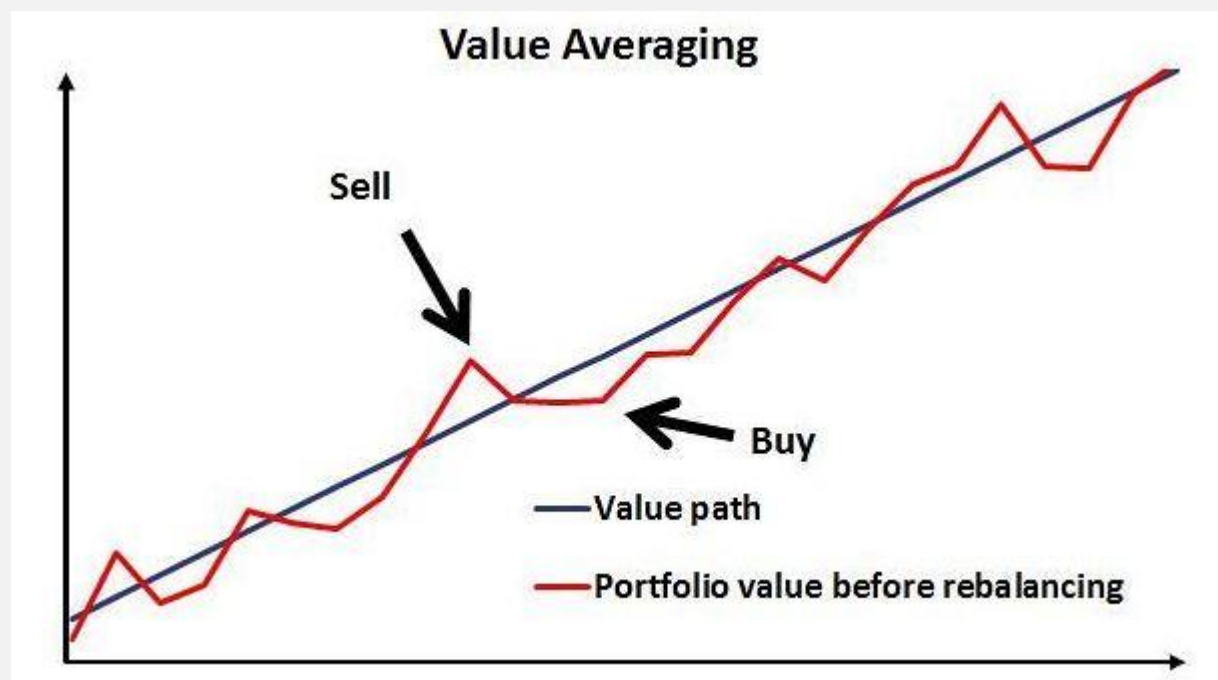
## Callan Chart

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	YTD 2020	'10 - '19 AVG	Best Performance       Worst Performance
Real Estate 28.07	Real Estate 9.37	Emerging Markets Stocks 18.68	Small Cap Stocks 38.82	Real Estate 32.00	Real Estate 4.48	Precious Metals 56.29	Emerging Markets Stocks 36.83	Bonds 0.01	Large Cap Stocks 31.49	Bonds 6.14	Large Cap Stocks 14.15	
Small Cap Stocks 26.85	Bonds 7.84	International Stocks 17.32	Mid Cap Stocks 34.76	Large Cap Stocks 13.69	Large Cap Stocks 1.38	Small Cap Stocks 21.31	Precious Metals 32.83	Real Estate (4.22)	Mid Cap Stocks 30.54	Large Cap Stocks (3.08)	Mid Cap Stocks 14.05	
Mid Cap Stocks 25.48	Large Cap Stocks 2.11	Mid Cap Stocks 17.28	Large Cap Stocks 32.39	Mid Cap Stocks 13.22	Bonds 0.55	Mid Cap Stocks 13.80	International Stocks 25.03	Large Cap Stocks (4.38)	Small Cap Stocks 25.52	Precious Metals (3.23)	Small Cap Stocks 12.88	
Precious Metals 23.58	Mid Cap Stocks (1.55)	Real Estate 17.12	International Stocks 22.78	Bonds 5.97	International Stocks (0.81)	Large Cap Stocks 11.96	Large Cap Stocks 21.83	Mid Cap Stocks (9.06)	Real Estate 23.10	Mid Cap Stocks (9.13)	Real Estate 12.16	
Emerging Markets Stocks 19.90	Small Cap Stocks (4.18)	Small Cap Stocks 16.35	Real Estate 1.22	Small Cap Stocks 4.89	Mid Cap Stocks (2.44)	Emerging Markets Stocks 9.90	Mid Cap Stocks 18.52	Small Cap Stocks (11.01)	Precious Metals 22.72	Emerging Markets Stocks (10.09)	International Stocks 6.42	
Large Cap Stocks 15.06	International Stocks (12.14)	Large Cap Stocks 16.00	Bonds (2.02)	Emerging Markets Stocks (1.79)	Small Cap Stocks (4.41)	Real Estate 6.68	Small Cap Stocks 14.65	International Stocks (13.79)	International Stocks 22.01	International Stocks (11.34)	Emerging Markets 5.06	
International Stocks 7.75	Emerging Markets Stocks (19.49)	Bonds 4.21	Emerging Markets Stocks (2.20)	International Stocks (4.90)	Emerging Markets Stocks (13.86)	Bonds 2.65	Real Estate 3.76	Precious Metals (14.99)	Emerging Markets Stocks 17.65	Small Cap Stocks (12.98)	Bonds 3.80	
Bonds 6.54	Precious Metals (27.62)	Precious Metals 0.90	Precious Metals (14.83)	Precious Metals (17.72)	Precious Metals (39.43)	International Stocks 1.00	Bonds 3.54	Emerging Markets Stocks (15.05)	Bonds 8.72	Real Estate (22.01)	Precious Metals 2.17	



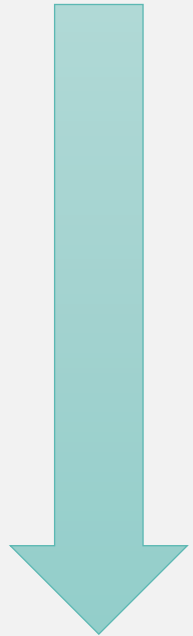
# INVESTMENT FUNDAMENTALS

## *Dollar-Cost Averaging*



# INVESTMENT FUNDAMENTALS

*Dollar-Cost Averaging in a Descending Market*



MONEY INVESTED	PRICE PER SHARE	NUMBER OF SHARES
\$ 200	\$10.00	20.0
\$ 200	\$ 9.00	22.2
\$ 200	\$ 8.00	25.0
\$ 200	\$ 7.00	28.6
\$ 200	\$ 7.50	26.7
<hr/>		
\$1,000	\$ 8.30	122.5

**$\$1,000 \div 122.5 = \$8.16$  AVERAGE COST/SHARE**

*\*These numbers are hypothetical and are used for illustrative purposes only. Actual results will vary.*

# INVESTMENT FUNDAMENTALS

*Dollar-Cost Averaging in a Rising Market*



MONEY INVESTED	PRICE PER SHARE	NUMBER OF SHARES
\$ 200	\$10.00	20.0
\$ 200	\$11.00	18.2
\$ 200	\$11.50	17.4
\$ 200	\$12.00	16.7
\$ 200	\$13.00	15.4
<hr/>		
\$1,000	\$11.50	87.7

**$\$1,000 \div 87.7 = \$11.40$  AVERAGE COST/SHARE**

*\*These numbers are hypothetical and are used for illustrative purposes only. Actual results will vary.*

# INVESTMENT FUNDAMENTALS

## *Question*

What is the biggest obstacle to investment success???



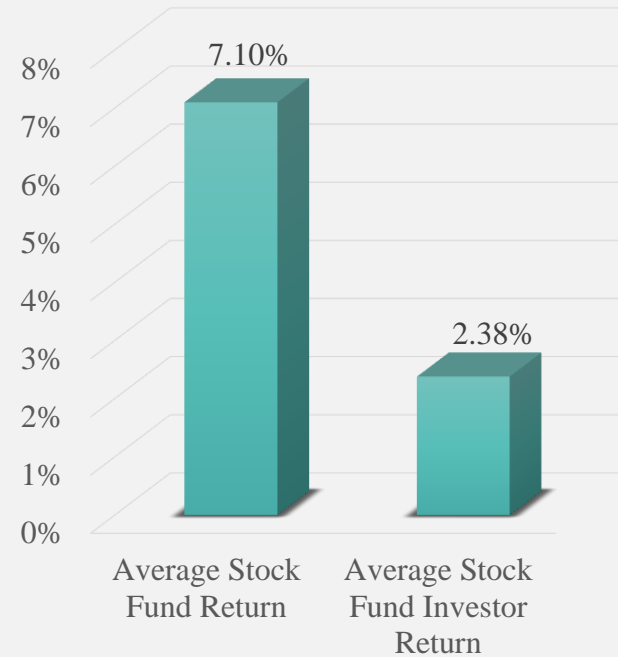
# INVESTMENT FUNDAMENTALS

## *Investor Behavior*



# INVESTMENT FUNDAMENTALS

*Average Stock Fund Return vs. Average Stock Fund Investor Return*



Source: *Quantitative Analysis of Investor Behavior* by Dalbar, Inc. (April 1, 2011) and Lipper. Dalbar computed the “average stock fund investor” returns by using industry cash flow reports from the Investment Company Institute. The “average stock fund return” figures represent the average return for all funds listed in Lipper’s U.S. Diversified Equity fund classification model. Dalbar also measured the behavior of a “systematic investor” and “asset allocation investor”. All Dalbar returns were computed using the S & P 500 Index. Returns assume reinvestment of dividends and capital gain distributions. Past performance is not a guarantee of future results.

# INVESTMENT FUNDAMENTALS

## *Quotable Quotes*

“It won’t be the economy that will do investors in; it will be the investors themselves.”

- Warren Buffet



“Risk comes from not knowing what you’re doing.”

- Warren Buffet

“Those who believe they can time the markets are either dishonest or delusional. In either case they must be avoided.”

- Burton Malkiel

Author of “A Random Walk Down Wall Street”



“The investor’s chief problem – even his worst enemy – is likely himself.”- Benjamin Graham



# INVESTMENT FUNDAMENTALS

*Utilizing the Thrift Savings Plan*





# INVESTMENT FUNDAMENTALS

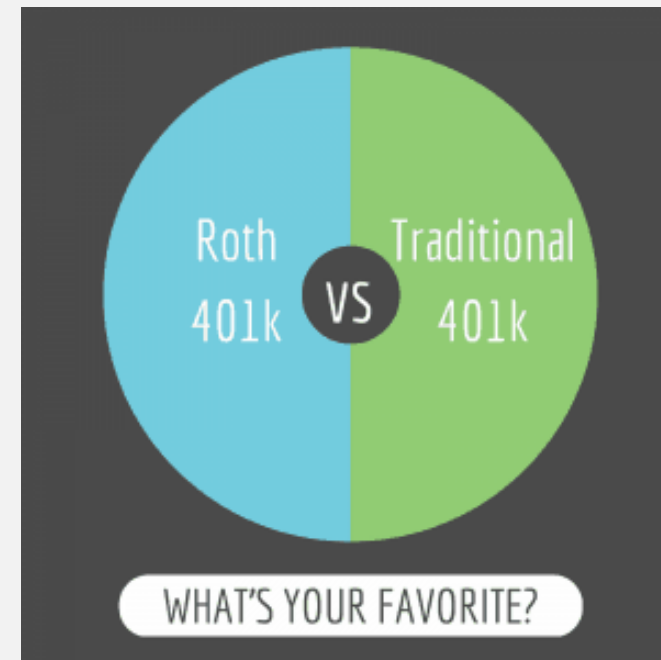
*What is the TSP (Thrift Savings Plan)?*

- A defined contribution retirement SAVINGS and INVESTMENT plan for Federal Employees like 401(k) plans
- Established in 1986 as a portable retirement account that can move with you when you retire or leave Federal service.

The value of your TSP account may influence your retirement timing decision

*Understanding the Traditional TSP & Roth 401(k)*

- Contributions (Pre-tax vs. after tax)
- Investment decisions
- Distributions options



# INVESTMENT FUNDAMENTALS

## *TSP Contributions*

- Employee Contributions
  - Up to \$19,500 in 2020  
(IRC section 402 (g) elective deferral limit)
- Agency Automatic 1% Contributions
- Agency Matching Contributions
  - Up to 5%
- “Catch up” Contributions
  - Up to \$6,500 in 2020  
Must be at least 50 years old in the year catch-up contributions are made (IRC section 414 (v))
- No Agency contributions or matching for CSRS employees.

## IRS Retirement Plan Limits

401(k) Plan Limits for the Year	2020/2021	2019
401(k) Elective Deferral	\$19,500	\$19,000
Annual Defined Contribution Limit	\$57,000	\$56,000
Annual Compensation Limit	\$285,000	\$280,000
Catch-Up Contribution Limit	\$6,500	\$6,000
Highly Compensated Employee	\$130,000	\$125,000
<b>NON-401(k) Related Limits</b>		
403b/457 Elective Deferral	\$19,500	\$19,000
Social Security Wage Base	\$137,000	\$132,900

# INVESTMENT FUNDAMENTALS

## *Traditional TSP Contributions*

- Employee Contributions (Pre-Tax)
  - Up to \$19,500 in 2020
- Agency Automatic 1% Contributions\*
- Agency Matching Contributions\*
  - Up to 5%
- “Catch up” Contributions
  - Up to \$6,500 in 2020

Must be at least 50 years old in the year catch-up contributions are made (IRC section 414 (v))

\* FERS employees only

IRS Retirement Plan Limits		
401(k) Plan Limits for the Year	2020/2021	2019
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# INVESTMENT FUNDAMENTALS

## *FERS Government Matching Contributions*

If employee contributes:	Government will contribute	Total Contribution
0%	1%	1%
1%	$1 + 1 = 2\%$	3%
2%	$2 + 1 = 3\%$	5%
3%	$3 + 1 = 4\%$	7%
4%	$4 + .5 = 4.5\%$	8.5%
5%	$4 + 1 = 5\%$	10%
More than 5%	$4 + 1 = 5\%$	Your contribution +5%



# INVESTMENT FUNDAMENTALS

## *TSP Basics*

- TSP began to offer a Roth 401(k) in 2012.
- A Roth 401(k) feature will combine all the benefits of TSP retirement savings with after-tax benefits of a Roth Savings Plan.

Note: Contributions to the Roth 401(k) are after-tax dollars but your account will grow tax-free and future distributions are tax-free (subject to distribution requirements).

- You will pay no Federal taxes when you withdraw your Roth 401(k) as long as:
  - You are at least age 59 ½ and have been making contributions for at least 5 years.
- Maximum Contributions = IRS elective deferral limits (2020) \$19,500 + “catch up” contributions for those who are eligible



# INVESTMENT FUNDAMENTALS

*Is the TSP Roth 401(k) Right for Me?*

1. Will you be in a higher tax bracket when you retire than you are now?
2. Do you want to diversify tax risk in the face of uncertain future tax rules?
3. Do you have a long time to save and will benefit from tax-free compounded earnings?



# INVESTMENT FUNDAMENTALS

## *Transferring Money to the TSP*

- The TSP can accept transfers from:
  - Individual Retirement accounts (IRAs)
  - Simple IRAs
  - Former employer 401(k) plans
  - Direct transfers or “rollovers” are eligible\*
  - Transfers do not count toward the annual contribution limit

\*pre-tax money only



# INVESTMENT FUNDAMENTALS

## *Savings Considerations*

### Factors to consider in saving for retirement:

1. Always contribute the **MAXIMUM** amount allowed within your budget
2. Resist the temptation to use money from your Thrift Savings Plan prior to retirement
  - Loss of compounding
  - Loss of return opportunities
  - Potential adverse tax consequences
  - Can restrict future participation
3. By not maximizing, you lose out on potentially **THOUSANDS OF DOLLARS** that could be invested for your retirement

# INVESTMENT FUNDAMENTALS

## *TSP Investment Choices*

### Investment Choices

- **G Fund** – Government Securities Investment Fund
  - Short-term, non- marketable US Treasury Securities
- **C Fund** – Common Stock Investment Fund
  - S&P 500 Index
  - Common stocks of large & medium US companies
- **F Fund** – Fixed Income Index Investment Fund
  - Barclays Capital US Aggregate Index
  - High quality fixed income securities
- **S Fund** – Small Capitalization Stock Index Investment Fund
  - Dow Jones Wilshire 4500 Completion Index
  - Small & medium companies not in the S&P 500
- **I Fund** – International Stock Index Investment
  - Morgan Stanley Capital International (EAFE) Index
  - Europe, Australia, Far East
  - Subject to currency exchange rate fluctuations
- **L Fund** – Lifecycle Funds

# INVESTMENT FUNDAMENTALS

## *TSP Investment Choices*





# INVESTMENT FUNDAMENTALS

## *Fund Types*

### **G Fund** – Government Securities Investment Fund

- Short-term, non- marketable US Treasury Securities

### **C Fund** – Common Stock Investment Fund

- S&P 500 Index
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### **F Fund** – Fixed Income Index Investment Fund

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### **I Fund** – International Stock Index Investment

- Morgan Stanley Capital International (EAFE) Index
- Europe, Australia, Far East
- Subject to currency exchange rate fluctuations

Average rate of return  
(as of 11/10/2020; since 8/31/1990)

4.4%

10.6%

6.1%

11.1%

5.7%

Source: <https://www.tspfolio.com/tspfunds>

# INVESTMENT FUNDAMENTALS

## *L Funds*

### Fund Definition: L Funds

#### L Funds – “Life Cycle” Funds (10 options)

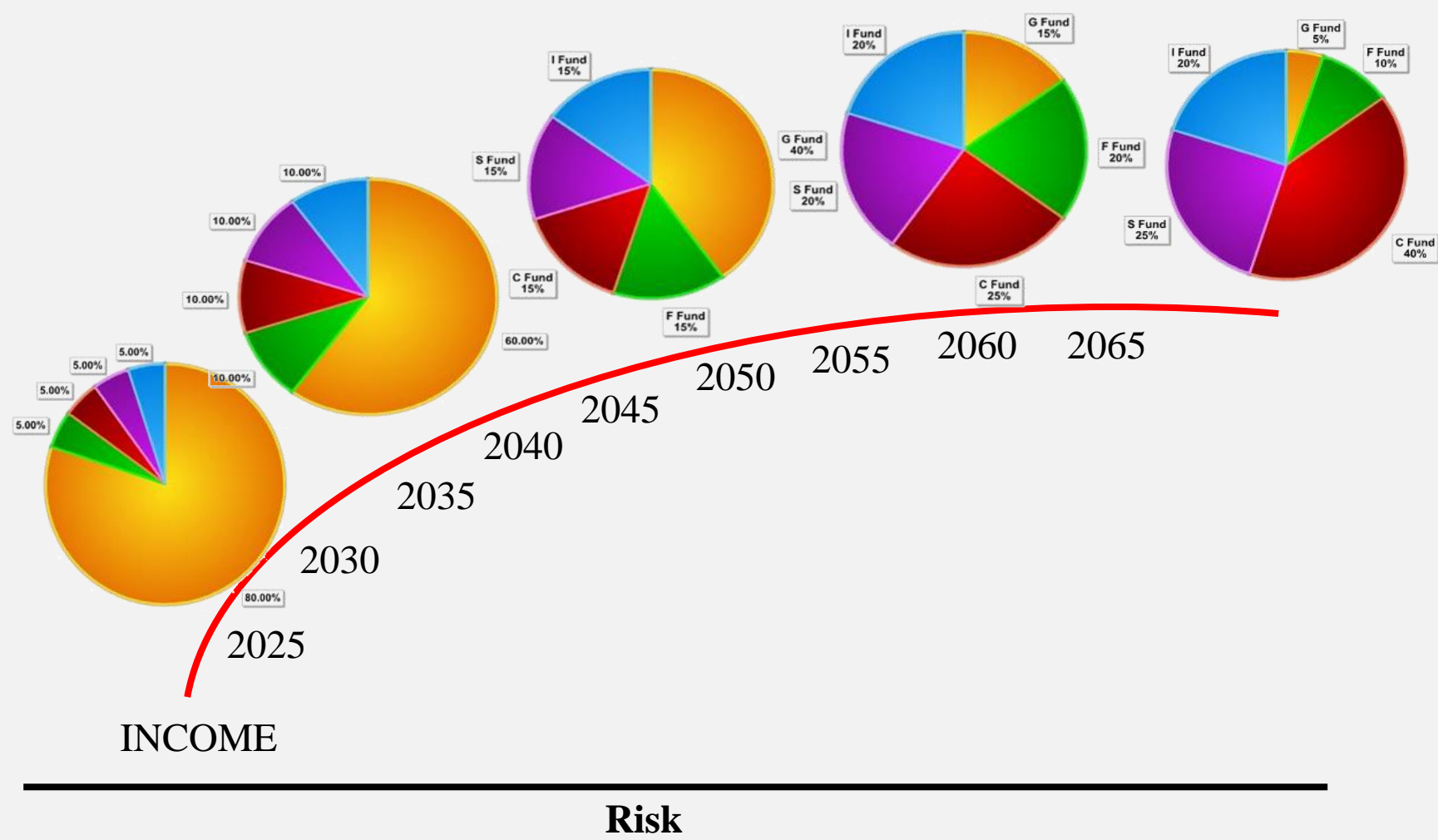
- A form of investing for retirement in which the investor chooses an expected withdrawal date
- Fund becomes more conservative over time as the expected withdrawal date approaches
  - L Funds rebalanced daily
  - Each quarter, each L Fund shifts to a slightly more conservative mix
  - Experts review investment mixes periodically to be sure they are still appropriate
- An allocation model that uses the existing asset classes as represented by the original TSP funds (G,F,C,S, and I)

**\*Caution:** While selecting an L Fund model based upon an expected retirement date may help manage the allocation decision, it DOES NOT ensure that you will have accumulated the amount of capital needed to support a lengthy retirement (20-30 years) at the lifestyle you desire!

# INVESTMENT FUNDAMENTALS

Fund Portfolio Mixes

Illustration



# INVESTMENT FUNDAMENTALS

## *L Fund Time Horizons*

- L 2065: For participants who will withdraw from their account in 2063 or later.
- L 2060: For participants who will withdraw from their account between 2058 – 2062.
- L 2055: For participants who will withdraw from their account between 2053 – 2057.
- L 2050: For participants who will withdraw from their account between 2048 – 2052.
- L 2045: For participants who will withdraw from their account between 2043 – 2047.
- L 2040: For participants who will withdraw from their account between 2038 – 2042.
- L 2035: For participants who will withdraw from their account between 2033 – 2037.
- L 2030: For participants who will withdraw from their account between 2028 – 2032.
- L 2025: For participants who will withdraw their money between next year and 2027.
- L Income: For participants who are currently withdrawing their TSP accounts in monthly payments.

# INVESTMENT FUNDAMENTALS

## *Historical Returns*

Fund Definition: L Funds

### TSP Historical Returns as of 10/30/2020

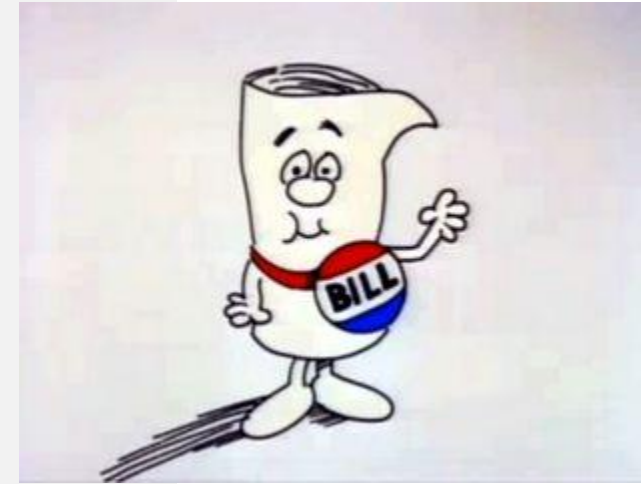
Year	L Income	L 2030	L 2040	L 2050	G Fund	F Fund	C Fund	S Fund	I Fund
Last 12 months	2.48%	3.76%	4.07%	4.27%	1.13%	6.16%	9.62%	11.02%	-6.57%
2020 YTD	1.01%	0.12%	-0.21%	-0.56%	0.82%	6.30%	2.69%	3.97%	-10.53%
2019	7.60%	17.60%	20.69%	23.33%	2.24%	8.68%	31.45%	27.97%	22.47%
2018	0.71%	-3.58%	-4.89%	-6.02%	2.91%	0.15%	-4.41%	-9.26%	-13.43%
2017	6.19%	14.54%	16.77%	18.81%	2.33%	3.82%	21.82%	18.22%	25.42%
2016	3.58%	7.07%	7.90%	8.65%	1.82%	2.91%	12.01%	16.35%	2.10%
2015	1.85%	1.04%	0.73%	0.45%	2.04%	0.91%	1.46%	-2.92%	-0.51%

Source: TSP.gov

# INVESTMENT FUNDAMENTALS

## *TSP Modernization Act*

- Allows for unlimited age-based withdrawals for employees over 59 ½ years of age and for separated employees with a TSP account balance.
- Gives the ability to change withdrawal amounts/frequency at anytime in the year.
- The President signed the bill on 11/17/2017 and the Federal Retirement Thrift Investment Board (FRTIB) Changes became effective 09/15/2019.
- FRTIB is changing website programming, webpages, publications, and forms to comply with new changes over this 2-year period.
- If you begin receiving benefits before the changes are enacted, you will still be eligible to make adjustments once the changes are in place.





# INVESTMENT FUNDAMENTALS

## *New Spillover Method*

- Begins 1/1/2021 for all active civilian and uniformed services members turning 50 or older
- Had to submit TSP-1-C for catch-up elections in prior years
  - Requirement to certify that you planned on meeting the elective deferral limit was not always clear to participants
  - Will no longer use TSP-1-C or TSP-U-1-C going forward
  - Will no longer use separate catch-up elections in electronic payroll system
- TSP system will determine if you're eligible (50 by the end of the calendar year)
  - If you are, elective deferral limit will automatically start counting towards the catch-up contribution limit
  - Additional contributions will “spill over” until the participant meets the catch-up limit for those age 50 or older
  - Contributions spilling over toward the catch-up limit will be matched, but only up to the 5% of salary to which participants are already entitled
- For uniformed services members making tax-exempt contributions in combat zones:
  - If they reach the IRC 415(c) annual addition limit, their contributions can spill over toward the catch-up limit even if they have not met the elective deferral limit. Once they reach the annual addition limit, catch-up contributions won't be matched and spillover will be allocated to Roth, not traditional.



# INVESTMENT FUNDAMENTALS

## *New TSP Legislation*

- As of September 15, 2019 the TSP has new, more flexible withdrawal options.

### Key Additions:

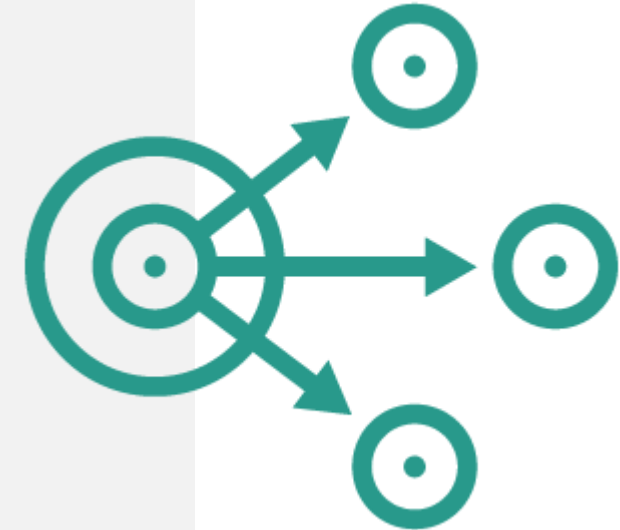
- Multiple post-separation partial withdrawals available
- Up to four in-service withdrawals available if you're 59 ½ or older
- Elimination of full withdrawal election after you turn 70 ½ and are separated from federal service
- Monthly, quarterly, or annual payments now available for separated participants.
- Ability to modify installment payments at any time
- Enhanced online tools on [tsp.gov](https://tsp.gov)



# INVESTMENT FUNDAMENTALS

## *Distribution Options – Post Separation*

1. Receive your account in a single payment
  - Roll the money over into an other retirement-eligible investment fund (after age 59½)
2. Receive the account in a series of monthly, quarterly or annual payments
  - Based on your life expectancy or a specific dollar amount
  - You are also able to take partial withdrawals as needed
3. Have TSP buy an annuity for you (life income stream)
  - Single life
  - Joint life with spouse
  - Joint life with someone other than spouse
4. Take any variation of options 1-3.
5. Leave the money in the account
  - Required to receive the IRS required minimum distributions by taking partial or installment withdrawals once you turn 72



# INVESTMENT FUNDAMENTALS

## *Distribution Options*

- Lump Sum or Partial Distribution
- Roll-over (transfer) to an eligible retirement account (non-taxable event)
- Installment payments based on life expectancy (see IRS table)



- Specific dollar amount (subject to minimum payment)



# INVESTMENT FUNDAMENTALS

## *TSP Loan Terms*

- Limited to the amount the individual has invested.
  - Minimum loan amount - \$1,000
  - Maximum loan amount - \$50,000
- Loan must be for at least 1 year, residential up to 15 years, and non-residential up to 5 years.
- Loan rate is tied to the G fund rate at the time the loan application is received and is fixed for life of the loan.
- At separation from service, loan must be paid in full or it is deemed a taxable distribution.



# INVESTMENT FUNDAMENTALS

## *Annuity-Settlement Options*

- Single Life annuity
- Joint Life annuity (insurable interest clause)
  - 100% survivor (Payments continue level)
  - (Joint annuitant >10 younger not eligible\*)
  - 50% survivor (Payment cut in-half)
  - Level & increasing payment options
  - Cash refund
  - Ten-year certain
    - \*Former spouse payable under court order





# INVESTMENT FUNDAMENTALS

## *Summary of Annuity Options*

### Summary of Annuity Options and Features

Single Life		Joint Life with Spouse		Joint Life with Other Survivor
Level Payments	Increasing Payments	Level Payments	Increasing Payments	Level Payments
with no additional features	with no additional features	100% survivor annuity	100% survivor annuity	100% survivor annuity*
<b>or</b>	<b>or</b>	<b>or</b>	<b>or</b>	<b>or</b>
with cash refund feature	with cash refund feature	50% survivor annuity	50% survivor annuity	50% survivor annuity
<b>or</b>	<b>or</b>	<b>or</b>	<b>or</b>	<b>or</b>
with 10-year certain feature	with 10-year certain feature	100% survivor annuity with cash refund	100% survivor annuity with cash refund	100% survivor annuity with cash refund*
		<b>or</b>	<b>or</b>	<b>or</b>
		50% survivor annuity with cash refund	50% survivor annuity with cash refund	50% survivor annuity with cash refund

\* Available if joint annuitant is not more than 10 years younger than the participant.

# INVESTMENT FUNDAMENTALS

## *Distribution Options*

Does Rolling-Over the TSP account make sense?

### (Roll-over IRA)

- Expanded investment options
- Single retirement account makes monitoring easier
- An IRA has estate planning opportunities

### (TSP account)

- Low expenses
- No 10% early withdrawal penalty if retiring at age 55-59 ½
- Protection from creditors.
- No RMD at age 72 as an active Federal employee
- Non-spousal beneficiaries can transfer TSP assets to a Roth IRA

# INVESTMENT FUNDAMENTALS

## *Investment Options*

Should I roll-over my TSP?

Asset classes available:

	<u>TSP</u>	<u>Roll-Over IRA</u>
U.S. Equity	Yes/2	Yes
Global Equity	Yes/1	Yes
Emerging Markets	No	Yes
U.S. Fixed Income	Yes/2	Yes
Global Fixed Income	No	Yes
Commodities	No	Yes
Real Estate	No	Yes
Individual Stocks	No	Yes

# INVESTMENT FUNDAMENTALS

*RMDs*

## Required Minimum Distributions

Table III (Uniform Lifetime) – Required Minimum Distributions					
(For use by: Unmarried Owners,					
Married Owners Whose Spouses Are Not More Than 10 Years Younger, and					
Married Owners Whose Spouses Are Not the Sole Beneficiaries of their IRAs)					
Age	Distribution Period	Age	Distribution Period	Age	Distribution Period
70	27.4	86	14.1	102	5.5
71	26.5	87	13.4	103	5.2
72	25.6	88	12.7	104	4.9
73	24.7	89	12.0	105	4.5
74	23.8	90	11.4	106	4.2
75	22.9	91	10.8	107	3.9
76	22.0	92	10.2	108	3.7
77	21.2	93	9.6	109	3.4
78	20.3	94	9.1	110	3.1
79	19.5	95	8.6	111	2.9
80	18.7	96	8.1	112	2.6
81	17.9	97	7.6	113	2.4
82	17.1	98	7.1	114	2.1
83	16.3	99	6.7	115 & over	1.9
84	15.5	100	6.3		
85	14.8	101	5.9		

# INVESTMENT FUNDAMENTALS

Question:

How much can you distribute each year from an investment account during a 25-year retirement without running out of money?

# INVESTMENT FUNDAMENTALS

*Withdrawal Rate vs. Stock/Bond Percentage*

Recommended

Rate	100/0	80/20	60/40	40/60	15/85	5/95
3%	99%	99%	99%	99%	99%	99%
4%	92	94	97	98	99	99
5%	81	83	83	80	69	42
6%	66	65	61	43	14	1
7%	48	42	32	12	0	0

Withdrawal Rates and a 25-Year Retirement



# INVESTMENT FUNDAMENTALS

## *In-Service Withdrawals*

- Eligibility begins at 59 ½
- You can make up to four age-based withdrawals per calendar year.
- Transfer to eligible retirement account
  - Non-taxable transfer
  - Balance of TSP eligible to transfer after separation from service
  - Employee continues contributing to the TSP



# QUIZ!

## *Question 1*

1. Federal employees working in Federal service at age 72 or over are not subject to required minimum distributions.

- A. True
- B. False

# QUIZ!

## *Question 2*

2. Federal employees who separate from service at age 55 – 59 ½ are subject to a 10% tax penalty for withdrawals from the TSP.

- A. True
- B. False

# QUIZ!

## *Question 3*

3. Agency matching will always be deposited into the employee's traditional TSP account even if the employee's contributions via payroll deduction are directed to the Roth TSP account

- A. True
- B. False

# QUIZ!

## *Question 4*

4. An employee will be able to transfer contributions from the traditional TSP funds to the Roth 401(k).

- A. True
- B. False

# QUIZ!

## *Question 5*

5. You can contribute up to the IRS elective deferral limit to each of the traditional TSP account and the Roth 401(k) account.

- A. True
- B. False

# QUIZ!

## *Question 6*

6. A Roth 401(k) is subject to required minimum distributions beginning at age 72.

- A. True
- B. False



# INVESTMENT FUNDAMENTALS

## *All Factors to Consider*

- Age and life expectancy
- Risk tolerance levels
- Rate of return goals
- Liquidity requirements
- Investment alternatives
- Income needs
  - Dollar amount needed
  - When it will be needed
  - How long it will have to last (life expectancy)
- Will I still be able to maintain my lifestyle?
- What kind of benefits can I provide for my family upon my death?



# INVESTMENT FUNDAMENTALS

## *Things You May Not Know About the TSP*

- Federal employees working in Federal service at age 72 or over are not subject to required minimum distributions.
- Federal employees who separate from service at age 55 – 59 ½ are not subject to a 10% tax penalty for withdrawals from the TSP
- Retired employees who do not withdraw or begin withdrawing from their TSP account by the withdrawal deadline forfeit\* their TSP account.
- Withdrawal deadline is the later of, April 1st the year following the year you become 72, or the year following your separation.

\*You can reclaim your account; however, you will not receive earnings on your account from the time the account was forfeited







# RETIREMENT PLANNING

*Section 6*



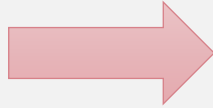
# RETIREMENT PLANNING



“I’ve crunched the numbers in your retirement account. It’s time to figure out who will be wearing the mask and who will be driving the getaway car.”

# RETIREMENT PLANNING

Types of Retirement



Regular/Voluntary

Early Retirement

Disability

Special Provisions

Deferred

Postponed

Phased

# RETIREMENT PLANNING

## Net Worth Statement



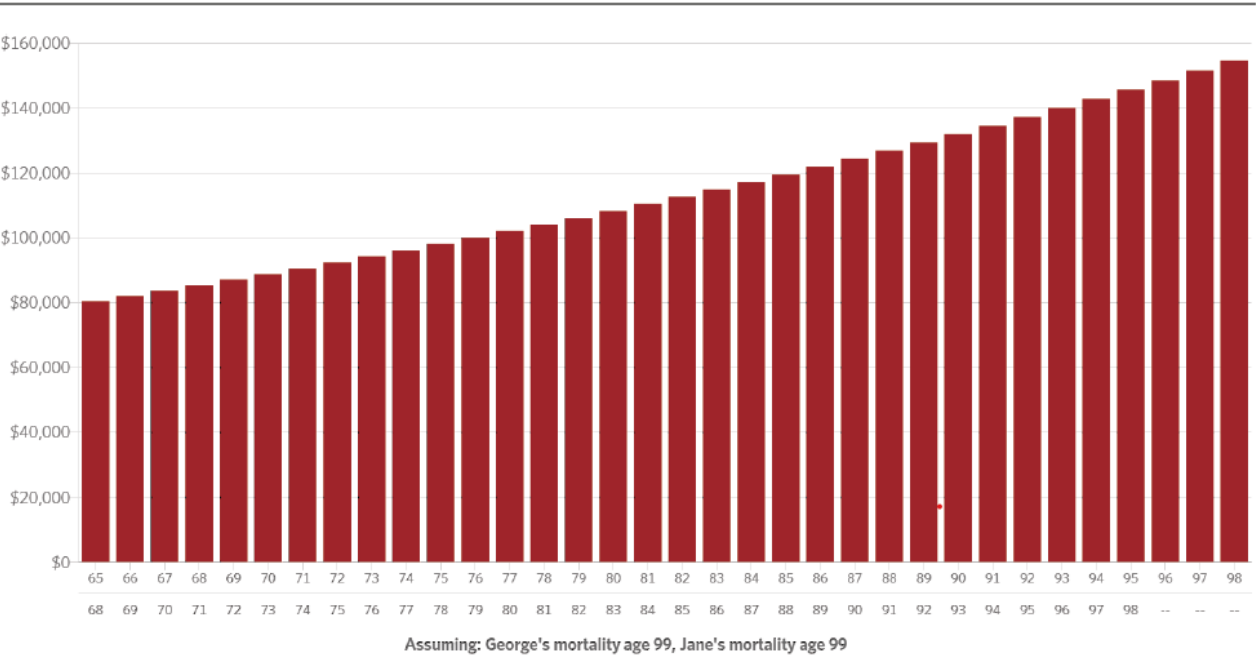
### Personal Balance Sheet

As of October 30, 2020

		Rate of Return	Market Value
Bank Accounts			
Commerce Bank			
George & Jane's Checking Account		0.00%	2,543
George & Jane's Savings Account		0.00%	25,487
			28,030
Qualified Accounts			
Creative Planning			
George's IRA - TD Ameritrade	.	6.00%	35,489
Jane's Roth IRA - TD Ameritrade		6.00%	38,453
US Government			
George's 401(k) - TSP		6.00%	407,650
Hallmark			
Jane's 401(k) - Fidelity		6.00%	286,879
			768,471
Taxable Investments			
Creative Planning			
George & Jane's Investment Account - TD Ameritrade		6.00%	126,282
			126,282
	Owner	Rate of Return	Market Value
Real Estate			
1234 Main Street	George & Jane	--	345,000
			345,000
Personal Property			
2012 Ford F-150	George & Jane	--	18,000
2019 Toyota Camry	George & Jane	--	20,000
			38,000
Total Assets			\$1,305,783

# RETIREMENT PLANNING

Retirement Projection



Your retirement income objective has been illustrated above. Your objective in the first year of retirement results in the following:

Total Annual Income In First Year of Retirement	\$80,400
---	----------

In order to meet your income objective throughout your retirement, the amount of money needed at the beginning of retirement, in an account earning 6.00% would be the following

Total Capitalized Income Objective	\$1,554,486
------------------------------------	-------------

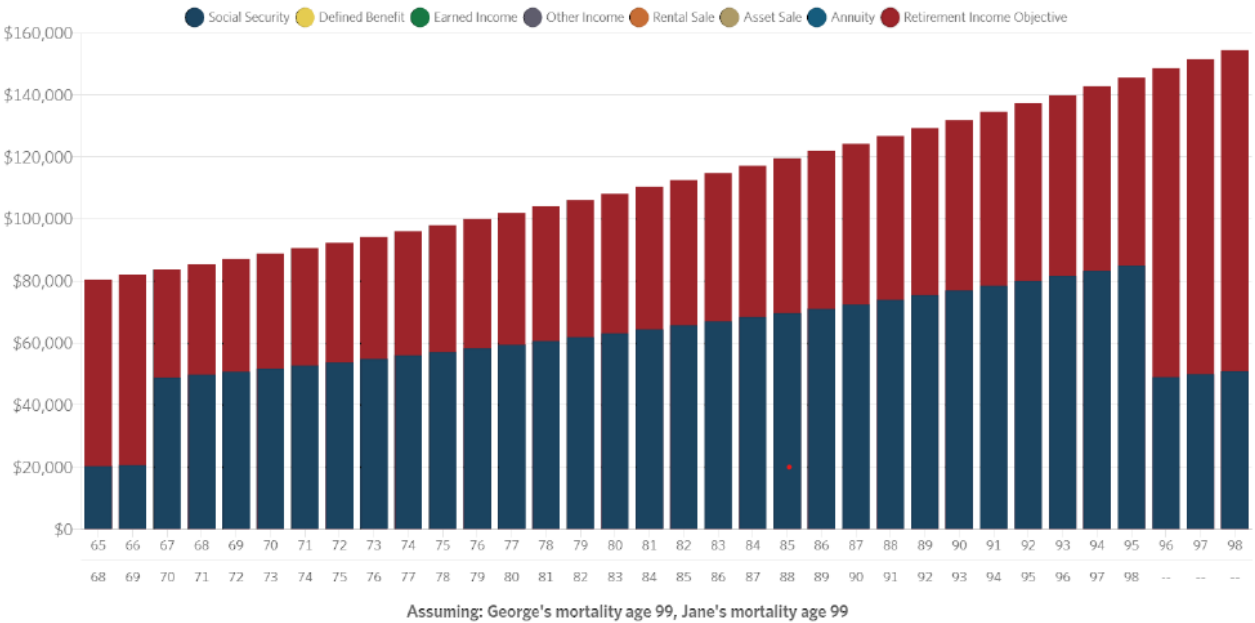
The goal of retirement analysis is to determine if your objective above can be met with expected income sources (e.g., Social Security) and withdrawals from assets (e.g., 401(k), IRA).

\*Calculated using long-term inflation rate of 2.00%.



# RETIREMENT PLANNING

## Retirement Projection with Income



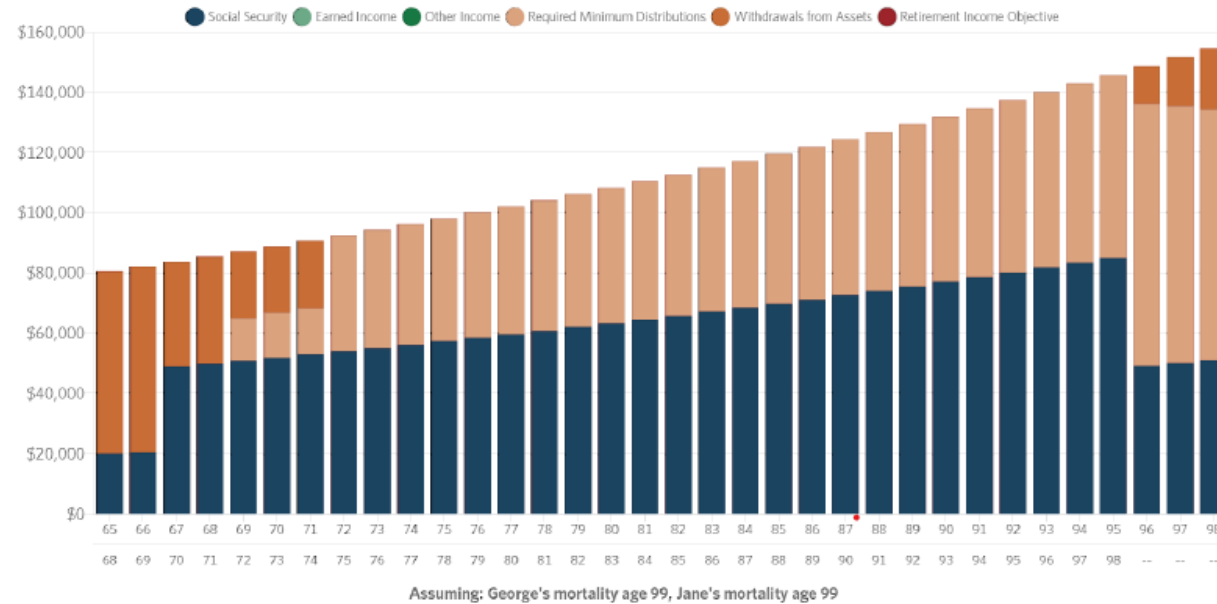
In the chart above, the analysis has applied your expected income sources against your retirement income needs. In any year that a shortfall exists (where the total need is larger than the available income), the analysis will attempt to cover the shortfall through withdrawals from your retirement portfolio (e.g. 401(k), and IRA). In any year where there is more income than need, the excess income will be invested. The table below summarizes the analysis so far.

Capitalized Value*	Amount	Percent of Total
Total Capitalized Income Objective	\$1,554,486	
Capitalized Applied Income Sources	\$837,394	53.87%
Capitalized Amount Needed From Assets	\$717,092	46.13%

\*Capitalization is a way of treating a series of cash flows as a lump sum, deposited in a hypothetical account with a return of 6.00%.

# RETIREMENT PLANNING

## Retirement Analysis



*Congratulations!* Based on the analysis of your retirement needs, expected income sources and available assets, your retirement income objective will be completely satisfied.

Capitalized Value*	Amount	Percent of Total
Total Capitalized Income Objective	\$1,554,486	
Capitalized Applied Income Sources	\$837,394	53.87%
Capitalized Applied Assets	\$717,092	46.13%
Projected Surplus at Retirement	\$205,691	

# RETIREMENT PLANNING

## Retirement Timeline



### Retirement Goal Yearly Detail

Beginning Balance: **\$922,783**

Age	Year	Contributions	Reinvested Surplus	Required Minimum Distributions	Withdrawals for Need	Total Growth	Total Portfolio Balance
65/68	2020	0	0	0	60,000	51,767	914,550
66/69	2021	0	0	0	61,200	51,201	904,551
67/70	2022	0	0	0	34,824	52,184	921,911
68/71	2023	0	0	0	35,520	53,183	939,574
69/72	2024	0	0	14,148	22,083	54,201	957,543
70/73	2025	0	0	14,868	22,088	55,235	975,823
71/74	2026	0	0	15,326	22,369	56,288	994,416
72/75	2027	0	2,062	40,511	0	57,358	1,013,326
73/76	2028	0	3,542	42,759	0	58,446	1,032,555
74/77	2029	0	5,040	45,042	0	59,553	1,052,106
75/78	2030	0	6,723	47,525	0	60,678	1,071,982
76/79	2031	0	8,418	50,036	0	61,822	1,092,186
77/80	2032	0	10,062	52,512	0	62,984	1,112,720
78/81	2033	0	11,955	55,254	0	64,165	1,133,586
79/82	2034	0	13,771	57,936	0	65,365	1,154,786
80/83	2035	0	15,670	60,718	0	66,584	1,176,322
81/84	2036	0	17,650	63,599	0	67,822	1,198,195
82/85	2037	0	19,536	66,405	0	69,080	1,220,406
83/86	2038	0	21,477	69,283	0	70,356	1,242,956
84/87	2039	0	23,466	72,228	0	71,652	1,265,845
85/88	2040	0	25,175	74,913	0	72,966	1,289,075
86/89	2041	0	26,874	77,606	0	74,301	1,312,643
87/90	2042	0	28,282	80,028	0	75,654	1,336,550

Question:

Who would consider retiring if you could replace your paycheck the day after you separated from service???

# RETIREMENT PLANNING

## *Key Retirement and Investment Challenges*

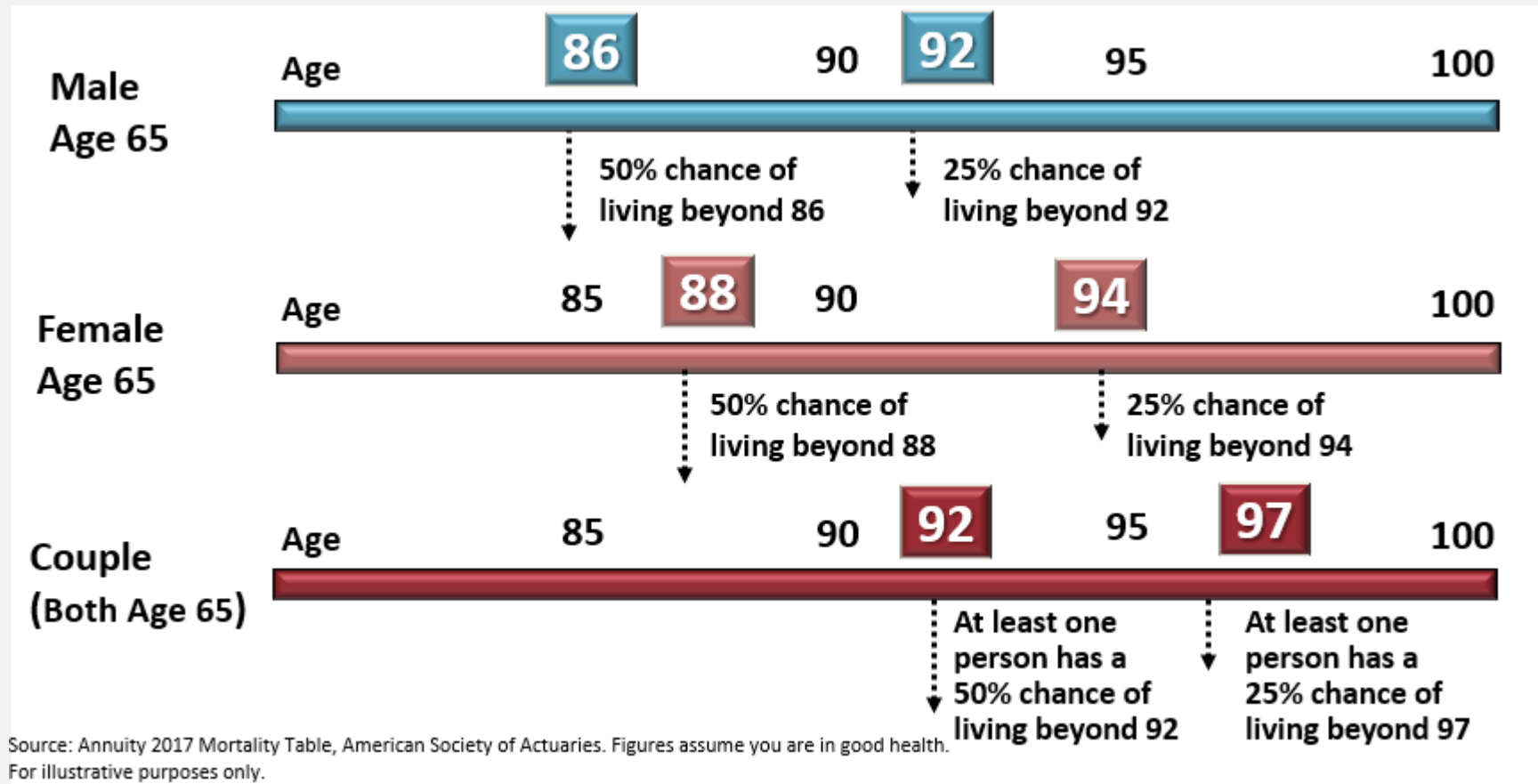
It's all about the cash flow!!

- Income vs. Expenses
- Key Challenges:
  - Longevity
  - Inflation rates
  - Market volatility
  - Excessive withdrawal rates
  - Healthcare costs



# RETIREMENT PLANNING

## *The Statistics of Longevity*



# RETIREMENT PLANNING

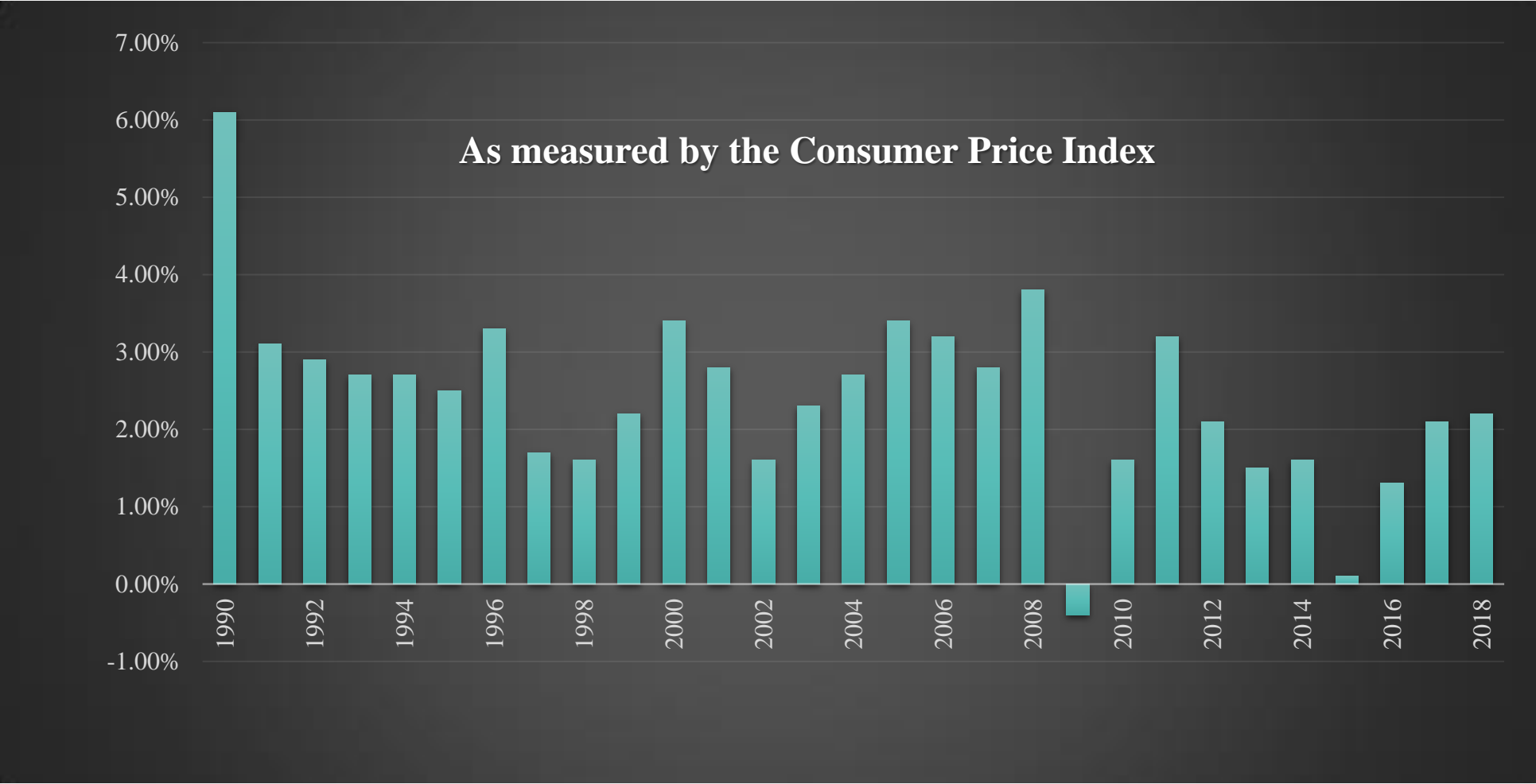
*Longevity and THE Retirement Imperative*





# RETIREMENT PLANNING

*Inflation over Time*



# RETIREMENT PLANNING

## *Phased Retirement*

- Public Law 112-141 gives federal employees the ability to “phase” in their retirement while continuing to work on a part-time basis.
- An eligible employee will receive a CSRS or FERS annuity that is reduced proportionately by the amount of time the retired employee works.
  - Work 50% of the time
  - Receive 50% of the annuity



# RETIREMENT PLANNING

## *Phased Retirement*

- A Phased Employee will:
  - Continue to accrue pay raises and step increases
  - Continue to receive annuity COLAs
- The partial annuity earned and unused sick leave accrued during phased retirement will be added into the annuity.
- Participation:
  - Entirely voluntary
  - Requires mutual consent of the employee and employing agency
- Requirements
  - 3 years of full-time employment preceding retirement
  - Must be eligible for immediate retirement



# RETIREMENT PLANNING

## *Phased Retirement - Eligibility*

### CSRS

- Age 55 and have 30 years of service
- OR
- Age 60 and have 20 to 30 years of service

### FERS

- Minimum retirement age and have 30 years of service
- OR
- Age 60 and have 20 to 30 years of service

# RETIREMENT PLANNING

## *Phased Retirement - NOTE*

- Note that:
  - A phased annuitant can return to full-time employment, which will terminate the annuity.
  - Once an individual has gone back to full-time employment, they cannot elect to go back into “phased” retirement.



Question:

What is the best age to begin receiving Social Security Benefits?

# RETIREMENT PLANNING

## *Full Retirement Age Cutoffs*

Year of Birth	Normal Retirement Age (NRA)	Credit for Each Year of Delayed Retirement After NRA (Percentage)	Benefit, as a Percentage of PIA, Beginning at Age						
			62	63	64	65	66	67	70
1943–1954	66	8	75	80	86 2/3	93 1/3	100	108	132
1955	66, 2 mo.	8	74 1/6	79 1/6	85 5/9	92 2/9	98 8/9	106 2/3	130 2/3
1956	66, 4 mo.	8	73 1/3	78 1/3	84 4/9	91 1/9	97 7/9	105 1/3	129 1/3
1957	66, 6 mo.	8	72 1/2	77 1/2	83 1/3	90	96 2/3	104	128
1958	66, 8 mo.	8	71 2/3	76 2/3	82 2/9	88 8/9	95 5/9	102 2/3	126 2/3
1959	66, 10 mo.	8	70 5/6	75 5/6	81 1/9	87 7/9	94 4/9	101 1/3	125 1/3
1960 and later	67	8	70	75	80	86 2/3	93 1/3	100	124

*Note: Persons born on January 1st of any year should refer to the previous year of birth.*



# RETIREMENT PLANNING

## *Social Security Payout Example*

Year of Birth = 1951

Age 62 = \$1,125.00

Age 66 = \$1,500.00

Age 70 = \$1,980.00



# RETIREMENT PLANNING

## *Cash Flow Needs During Retirement*

- The Basics:
  - Living expenses
  - Long term health care costs
- The Reasons for Retirement
  - Vacations and Travel
  - Volunteering
  - Charitable work/donations
  - A second “career”



# RETIREMENT PLANNING

## *Cash Flow Needs During Retirement*

- Reduced expenses:
  - Retirement savings
  - Payroll taxes
  - Commuting costs
  - Clothing/dry cleaning



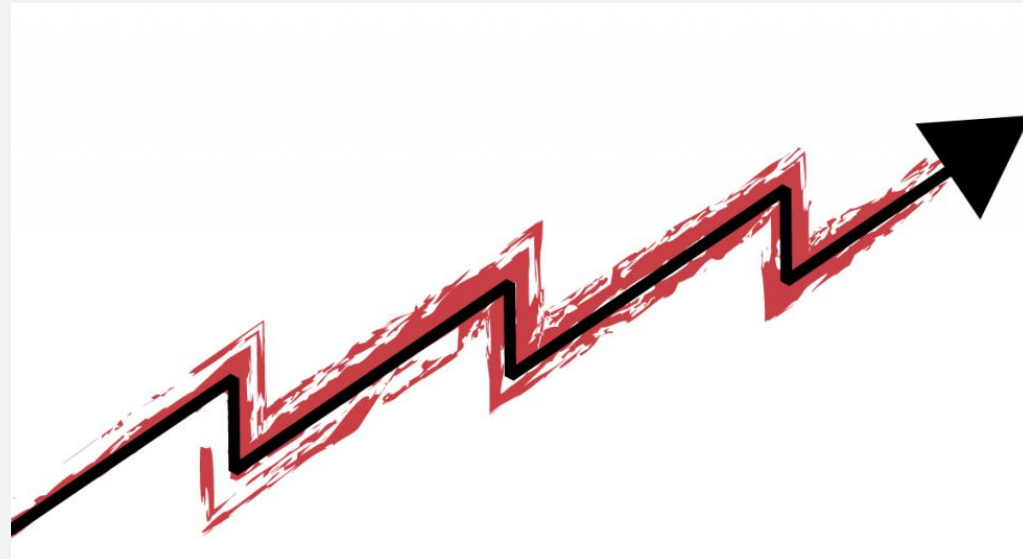
- Increased expenses:
  - Health Care
  - Travel
  - Entertainment
  - Hobbies



# RETIREMENT PLANNING

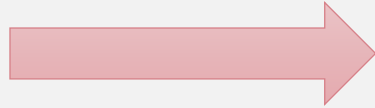
## *Things that Raise Retirement Income*

- Cost of living adjustments (COLAs)
- Rising values of retirement investments
- Eligibility for Military or other public pensions
- Sending spouse back to work



# RETIREMENT PLANNING

Three Major Sources of  
Retirement Income



Employer-Sponsored Plans

Social Security

Personal Savings &  
Investments

# RETIREMENT PLANNING

## *Employer-Sponsored Retirement Programs*

- Defined Benefit
  - Requirements for participation and eligibility
  - Monthly benefits determined by formula
  - Risk on employer
- Defined Contribution
  - Funds set aside by/for employee
  - Benefits determined by actual funds in the account
  - Depends on amount of contributions and rate of return
  - Risk on employee

401(k)–Style Defined Contribution	vs	Defined Benefit Pensions
<b>Risk</b>		
The investment risk is carried entirely by the <b>employee</b> . Unexpected changes in the market (i.e. 2008 Recession) can wipe out decades of retirement saving.		
The risk is <b>shared</b> among everyone paying into the pension. DB plans can weather market variations without the brunt falling on the individual employee.		
<b>Management</b>		
<b>Individual workers</b> are responsible for managing their own retirement. Wall Street firms earn big bucks off financial advising fees.		
Pooled assets are <b>professionally managed</b> by pension administrators. Administrators work to protect employees, not Wall Street.		
<b>Cost</b>		
DC plans cost nearly <b>2x as much</b> as DB plans to offer the same benefits.		
<b>Lower fees and higher returns</b> generate a 27% cost savings. DB plans are secure and cost effective		

# RETIREMENT PLANNING

## *CSRS – Dual Defined Benefit Retirement System*

- Defined Benefit: CSRS Annuity (7.0% of pay)
- 1987: Thrift Savings Plan Option Added
- Defined Benefit: CSRS Offset CSRS Annuity (.8% of pay)
- Social Security Benefits (6.2% OASDI)





# RETIREMENT PLANNING

## *Income Sources - CSRS*

- 1) Defined Benefit – CSRS Annuity
  - a) 7.0% of pay
- 2) Defined Contribution – Thrift Savings Plan
  - a) This was added in 1987





# RETIREMENT PLANNING

## *CSRS – Retirement Eligibility*

- Unreduced Benefits:
  - Age 55 and 30 years of credible service
  - Age 60 and 20 years of credible service
  - Age 62 and 5 years of credible service
- Employees contribute 7% of basic pay
  - Also, unused sick and leave credit



# RETIREMENT PLANNING

## *CSRS - Voluntary Contribution Plan*

- An employee covered by CSRS and CSRS-offset can make voluntary contributions to purchase an additional annuity
- May elect to purchase an additional annuity (V/C annuity)
- Limitations of voluntary contributions (10% of base salary in \$25 increments)
- Refunds of voluntary contributions (Full only)
- Rollover to an IRA is permitted



# RETIREMENT PLANNING

## *CSRS – General Retirement Formula*

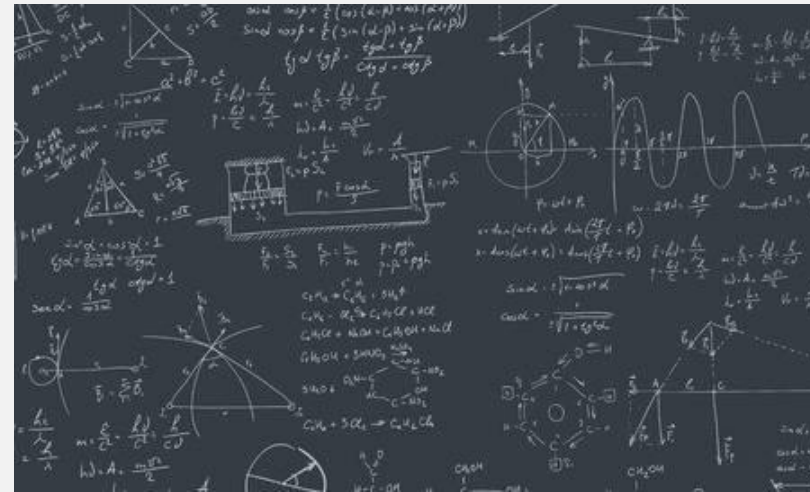


- Unreduced Annuity – 3 Steps
  1.  $1.5\% \times \text{high 3 average salary} \times \text{years of service (up to 5)}$
  2.  $1.75\% \times \text{high 3 average salary} \times \text{years of service (6-10)}$
  3. Plus:  $2.0\% \text{ of high 3 average salary} \times \text{all service (over 10 years)}$
  
- Example – Age 55, 30 years of service, high-3 is \$60,000
  1.  $1.5\% \times 60,000 \times 5 \text{ years of service} = \$4,500$
  2.  $1.75\% \times 60,000 \times 5 \text{ years of service} = \$5,250$
  3. Plus:  $2.0\% \times 60,000 \times 20 \text{ years of service} = \$24,000$
  4. **Total Annual Annuity = \$33,750**
    - a) 56.25% of income replacement ( $\$33,750 / \$60,000$ )

# RETIREMENT PLANNING

## *CSRS – General Retirement Formula*

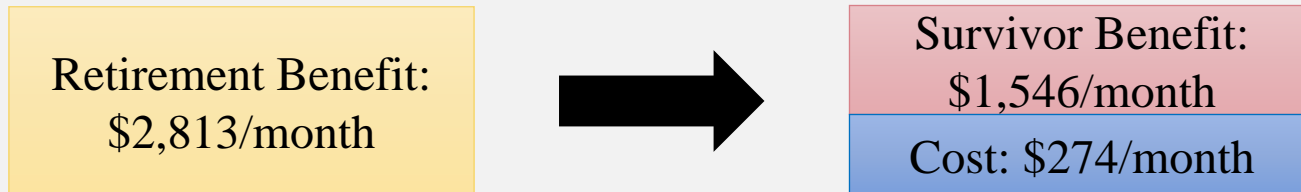
- Annuity is generally capped at 80% of high 3 average salary
  - Exceptions for lengthy service due to sick leave credit
- Early retirement penalty: 2%/year



# RETIREMENT PLANNING

## *CSRS – Survivor Annuity Option*

- Minimum dollar amount up to 55% of unreduced annuity election
- Election may be a percentage or dollar amount
- Cost: 2.5% of first \$3600, plus 10% of the amount over \$3600 used as a base
- Benefit continues to survivor for life, unless remarriage prior to age 55
- Example: Age 60, 30 years of service, High 3 average is \$60,000



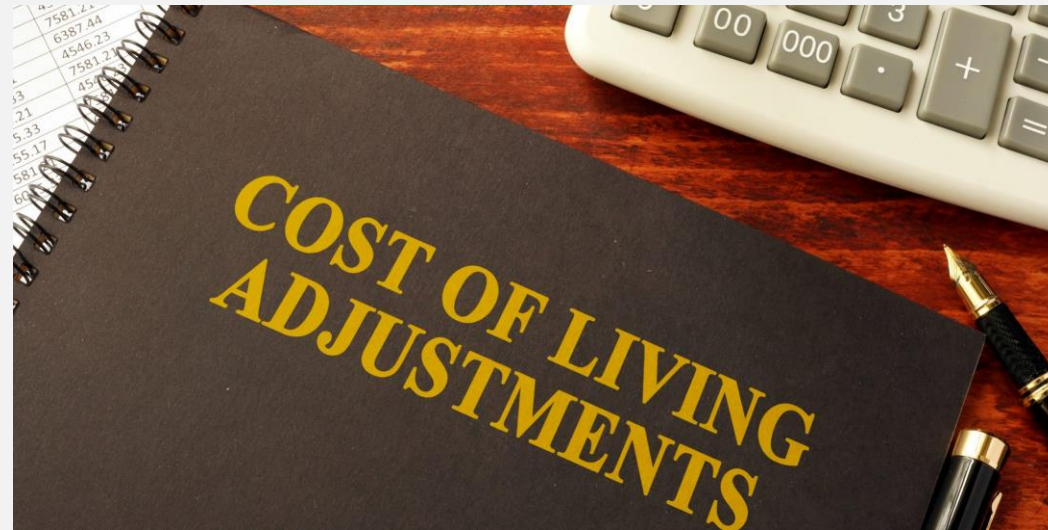
Annuities “pop up” to the unreduced amount if the designated annuity beneficiary predeceases the retiree.

# RETIREMENT PLANNING

## *CSRS – Cost Of Living Adjustments (COLA)*

- Percentage of increase determined by average Consumer Price Index for Urban Wage Earners (CPI-W) for Q-3 over Q-3 average of the previous year.
- A COLA\* is paid to all CSRS retirees, regardless of the age at which they retire, and to their survivors.

\*Subject to final approval



# RETIREMENT PLANNING

## *CSRS – Government Pension Offset*

- Applies if you worked for a federal, state, or local government where you did not pay Social Security taxes
- Offset reduces the amount of your Social Security spousal or survivor benefits by 2/3 of the amount of your non-Social Security annuity
- Example:
  - Your monthly CSRS annuity = \$1,200
  - Social Security spousal or survivor annuity = \$900
  - $\$1,200 \times \frac{2}{3} = \$800$
  - $\$900 - \$800 = \$100 \rightarrow$  Amount you will receive from Social Security.



# RETIREMENT PLANNING

## *CSRS – Windfall Elimination Provision (WEP)*

- Applies if you will receive a pension from a job where you didn't pay Social Security taxes (CSRS) and you also have enough Social Security credits to be eligible for retirement or disability benefits
- Applies to workers who reach 62 or become eligible for a monthly pension based in whole or in part on work not covered by Social Security
- Results in use of modified formula to calculate your personal Social Security benefit (Up to a 50% reduction, subject to “substantial earnings” test)
- Social Security is penalized by the lesser of 50% of the Social Security benefit expected at age 62, or \$463/month.
- 21-29 years of substantial earnings will mitigate the WEP penalty and after 30 years the penalty is not assessed.



# RETIREMENT PLANNING

## *CSRS – Substantial Earnings Test*

- The Windfall Elimination Provision does not apply if:
  - You are a federal worker first hired after December 31, 1983; (FERS Employee)
  - You were employed on December 31, 1983, by a nonprofit organization that did not withhold Social Security taxes from your pay at first, but then began withholding Social Security taxes from your pay;
  - Your only pension is based on railroad employment;
  - You have 30 or more years of substantial earnings under Social Security.



# RETIREMENT PLANNING

## *FERS – Retirement Eligibility*

- Unreduced Benefits:
  - Age 62 and 5 years creditable service
  - Age 60 and 20 years creditable service
  - MRA and 30 years creditable service
  - MRA and 10 years creditable service
    - Postpone benefit receipt until age 62 (age 60 with 20 years of service) to avoid 5% per year annuity reduction
- Employees contribute .8% of basic pay (3.1% for employees hired after December 31, 2012)



**Federal Employees  
Retirement System**

# RETIREMENT PLANNING

## *FERS – Minimum Retirement Age*



**Federal Employees  
Retirement System**

If you were born	Your MRA
Before 1948	55 Years
1948	55 Years, and 2 months
1949	55 Years, and 4 months
1950	55 Years, and 6 months
1951	55 Years, and 8 months
1952	55 Years, and 10 months
1953 to 1964	56 Years
1965	56 Years, and 2 months
1966	56 Years, and 4 months
1967	56 Years, and 6 months
1968	56 Years, and 8 months
1969	56 Years, and 10 months
After 1969	57 Years

# RETIREMENT PLANNING

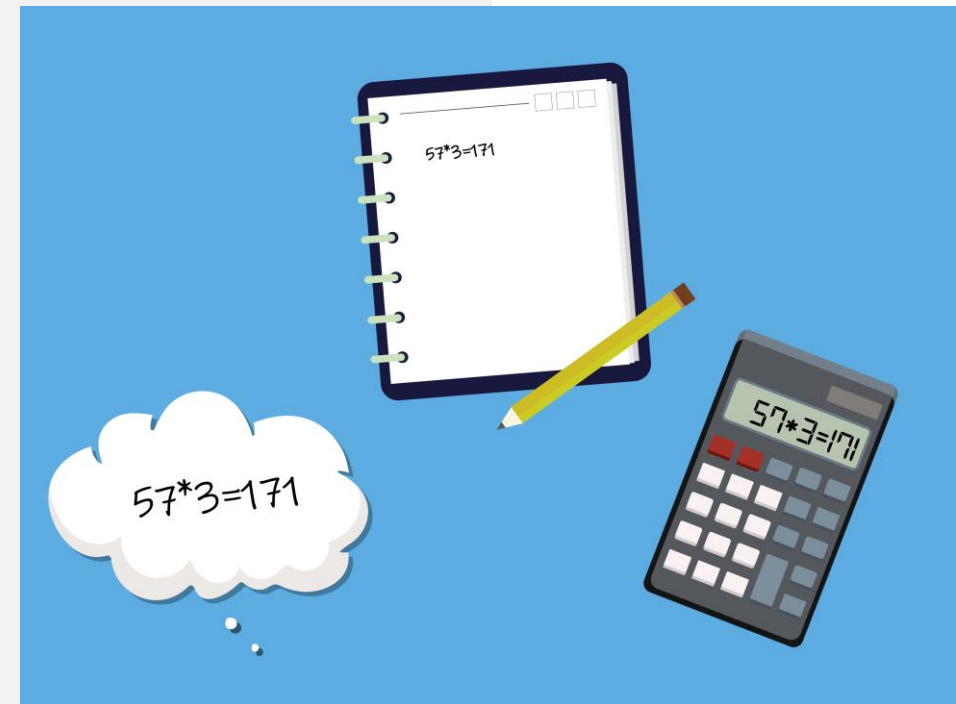
## *FERS – Basic Annuity Calculation*

- Unreduced Annuity
  - If retiring before age 62...
    - $1.0\% \times \text{high 3 average salary} \times \text{years of service}$
  - If at least age 62 and at least 20 years of service...
    - $1.1\% \times \text{high 3 average salary} \times \text{years of service}$
- Example – Age 57, 30 years of service, high-3 is \$60,000
  1.  $1.0\% \times 30 \text{ years} = 30\%$
  2.  $30\% \times \$60,000 = \$18,000/\text{year}^*$
  3. If at age 62, 30 years of service, High-3 = \$60,000....
    1.  $1.1\% \times 30 \text{ years} (33\%) = \$19,800/\text{year}$

\*No COLA until age 62



Federal Employees  
Retirement System



# RETIREMENT PLANNING

## *FERS – Basic Annuity Calculation*

- MRA + 10 Immediate Annuity (Reduced Annuity)
  - Imposes a 5% annuity reduction for each year the worker is under age 62 (age 60 if worker has 20 years of service)
- Example:
  - Age: 60/62
  - Years Service: 30/32
  - High 3 Avg: \$60,000
  - COLA: 3%
  - Life expectancy: Age 90

	Retire at age 60 with 30 years	Retire at age 62 with 32 years
Annual Annuity at Retirement	\$18,000	\$21,120
Annual Annuity at Death	\$43,691	\$48,321
Total Lifetime Payments Received	\$856,357	\$906,701



**Federal Employees  
Retirement System**

# RETIREMENT PLANNING

## *FERS – Credit for Unused Sick Leave*

- Full credit for unused hours, no limit. However, any hours that do not add up to a full month are discarded.
- Note: unused sick leave cannot be used in computing high-3 salary or for meeting the minimum length of service for retirement eligibility



**Federal Employees  
Retirement System**

# RETIREMENT PLANNING

## *FERS – Retiring Prior to Age 62*

- One full calendar year of FERS service
- Retire with entitlement to an immediate annuity under one of the following criteria:
  - At or after the minimum retirement age (MRA) with 30 years of service
  - At age 60 with 20 years of service
  - At or after the MRA under involuntary or early voluntary retirement (age 50 with 20 years of service or any age with 25 years of service) if the agency is undergoing reorganization, reduction-in-force, or transfer of function
  - Under special provisions for law enforcement officers, firefighters, air traffic controllers, or military reserve technicians
  - At or after the MRA under early retirement provisions for Senior Executive Service
  - At or after the MRA for Members of Congress
- Ineligible employees:
  - Employees retiring under disability or the MRA + 10 provision
  - Employees retiring at age 62 or separating with eligibility only for deferred retirement



**Federal Employees  
Retirement System**

# RETIREMENT PLANNING

## *FERS Annuity Supplement for those Retiring Prior to Age 62*



**Federal Employees  
Retirement System**

- Supplement Calculation:
  1. Estimate the full career Social Security Benefit as if the employee were age 62.
  2. Calculate civilian service creditable under FERS, rounded to nearest full year (Note: Military service is included only if performed during leave from civilian service after FERS coverage began)
  3. Divide the years of FERS service by 40 to obtain a fraction.
  4. Multiply the career Social Security Benefit by the fraction determined in Step 3.
- Example:
  1. \$1,000/month is the 62 benefit
  2. 30 years of civilian service is credible
  3. Divide the years of FERS service by 40;  $30 / 40 = 0.75$
  4. Multiply;  $0.75 * \$1,000 = \$750/\text{month}$  FERS Supplement



# RETIREMENT PLANNING

## *FERS – Annuity Supplement Limitation Rules*

- Supplement is subject to Social Security earnings limitations
  - Limit applies only to income from wages
  - Must report earnings to OPM for each year eligible to receive supplement
  - In 2019, earnings limit = \$17,640
  - Retirees exceeding this amount:
    - \$1 in supplement benefits will be withheld for every \$2 earned above the limit
- Example: earn \$20,000 and receive \$12,000 annual supplement benefits
  - $\$20,000 - \$17,640 = \$2,360$
  - $\$2,360 / \$2 = \$1,180$
  - $\$12,000 - \$1,180 = \$10,820$



**Federal Employees  
Retirement System**

# RETIREMENT PLANNING

## *Basic Annuity Calculation – Special Category Employees*

- Optional:
  - Age 50 and 20 years of creditable service
- Mandatory:
  - Law enforcement - Age 57 and 20 years of creditable service
  - Fire fighters - Age 55 and 20 years of creditable service
  - Air traffic controllers - Age 56 and 20 years of creditable service
- Calculation:
  - 1.7% of high 3 average salary up to 20 years
  - 1.0% of high 3 average salary over 20 years
- Employees contribute 1.3% of pay
- CSRS Calculation:
  - 2.5% of high 3 average salary up to 20 years
  - 2.0% of high 3 average salary over 20 years

# RETIREMENT PLANNING

## *FERS Redeposit*

- Prior to 10/29/2009, individuals who took refunds of their FERS employee contributions lost service credit for the period of service covered by the refund
- Individuals employed under FERS on or after 10/29/2009 will now be given opportunity to make the redeposit
- Interest must be paid on amount redeposited



**Federal Employees  
Retirement System**



# RETIREMENT PLANNING

## *FERS - COLA*

- Amount of increase depends upon the change in the average Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the third quarter of each year over the third quarter average CPI-W index of the previous year.
  - If it increases by 3% or more, COLA = CPI-W minus 1%
  - If it increases by 2% to 3%, COLA = 2%
  - If it increases by 2% or less, COLA = CPI-W
- Benefits eligible for a COLA:
  - Retirement benefits payable to retirees age 62 and older
  - Survivor benefits
  - Disability retirement benefits
  - Certain special service (LEO, ATC, FF) retirees age 50 with at least 25 years of service
  - Special CIA employees

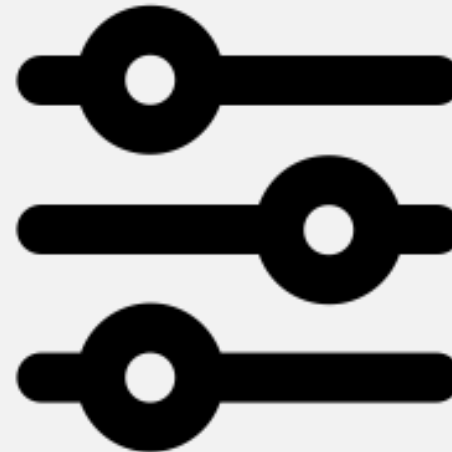


**Federal Employees  
Retirement System**

# RETIREMENT PLANNING

## *Events That May Cause Adjustments to Retirement Income*

- Age and years of service combinations
- Social Security Eligibility (age 62 or later)
- Earned income above certain levels that may lead to future reductions in income
- CSRS Off-Set formula (@age 62)
- Government Pension Offset- CSRS Retirees
- Windfall Elimination Provision- CSRS Retirees



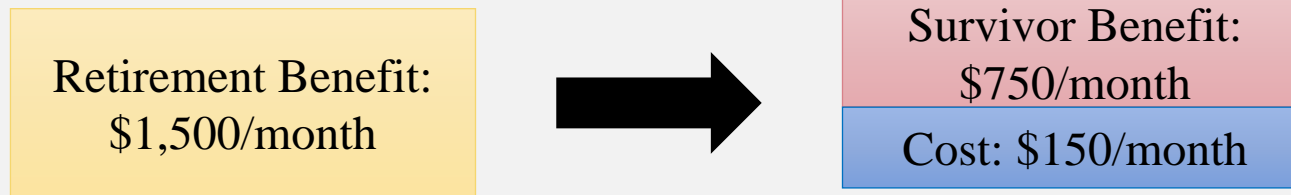
**Federal Employees  
Retirement System**

# RETIREMENT PLANNING

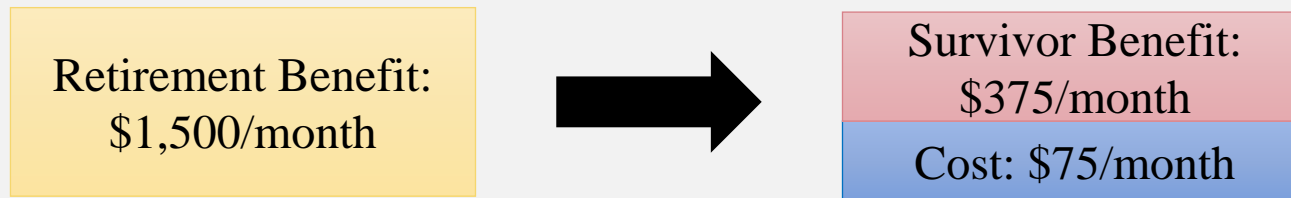
## *FERS – Survivor Annuity Option*

- Example: Age 60, 30 years of service, High 3 average is \$60,000

50% Option:



25% Option



+ Social Security Benefit

Annuities “pop up” to the unreduced amount if the designated annuity beneficiary predeceases the retiree.



Federal Employees  
Retirement System

# RETIREMENT PLANNING

*CSRS & FERS – Survivor Annuity Option*

Please note: Retiring Federal Employees **MUST** elect a form of a survivor annuity to continue eligibility for health insurance for their dependents.

# RETIREMENT PLANNING

## *Post-1956 Military Service*

- Deposit required for post 1956 military service
- FERS: 3-3.4% of basic military pay plus interest\*

\* No interest if paid within 2 years

- Variable interest rates apply





# RETIREMENT PLANNING

## *Post-1956 Military Deposit*

- Must be made to the agency prior to retirement
- Lump Sum, Installments, Payroll Deductions
- Military earnings statement, DD214
- Application for military deposit, SF-3108
- CSRS:
  - 7-8% of basic military pay plus interest
  - There is no benefit for CSRS employees not eligible for Social Security to pay a deposit (“Catch 62”)
  - Application for military deposit, SF-2803



# RETIREMENT PLANNING

## *Post-1956 Military Deposit*

- Military Deposit = total amount of military earnings x 3%
- Example (4 years of service):
  - Total Military Pay = \$100,000
  - $3 - 3.4\% = \$3,000 - \$3,400$
- Repaid within 2 years of being hired under FERS
  - 4 years X 1% = 4% of high 3 (retiring prior to age 62)
  - 4% of annual salary of \$80,000 = \$3,200 additional retirement income/year



**Federal Employees  
Retirement System**

# RETIREMENT PLANNING

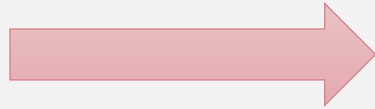
## *Retired Military Service*

- Cannot receive credit in your civilian annuity unless:
  - Waive retired pay
  - Retired military pay awarded:
    - Service-connected disability incurred in combat
    - Service-connected disability caused by instrumentality of war in line of duty
    - Under Provisions of 10 U.S.C., Chapter 67



# RETIREMENT PLANNING

Three Major Sources of  
Retirement Income



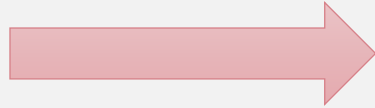
Employer-Sponsored Plans

Social Security

Personal Savings &  
Investments

# RETIREMENT PLANNING

Four Aspects of Social  
Security Benefits  
(OASDI)



Old Age

Survivors (Spouse Only)

Survivors (Others)

Disability

# RETIREMENT PLANNING

## *Social Security - Eligibility*

- 40 quarters of coverage
  - 2020: \$1,410 earned equals one credit/quarter
- Age (62 to 67) Early to Full Retirement Age
- Cost – 7.65%
  - 6.20% OASDI
  - 1.45% Medicare



# RETIREMENT PLANNING

## *Social Security – Earnings Limitations*

- Applies if you retire prior to full retirement age and continue working
  - Social Security benefit will be reduced \$1 for each \$2 you earn above \$18,240 (2020)
- Example:
  - Earn \$20,000 and receive \$12,000 annual Social Security benefits
  - $\$20,000 - \$18,240 = \$1,760$
  - $\$1,760 / \$2 = \$880$
  - $\$12,000 - \$880 = \$11,120$
- For Special Category Employees, earnings test applies when employee reaches minimum retirement age

A hand holding a black marker is writing the word "LIMITATION" in all capital letters on a white surface. A horizontal line is drawn underneath the word.

LIMITATION

# RETIREMENT PLANNING

## *Social Security – Estimating your Benefits*

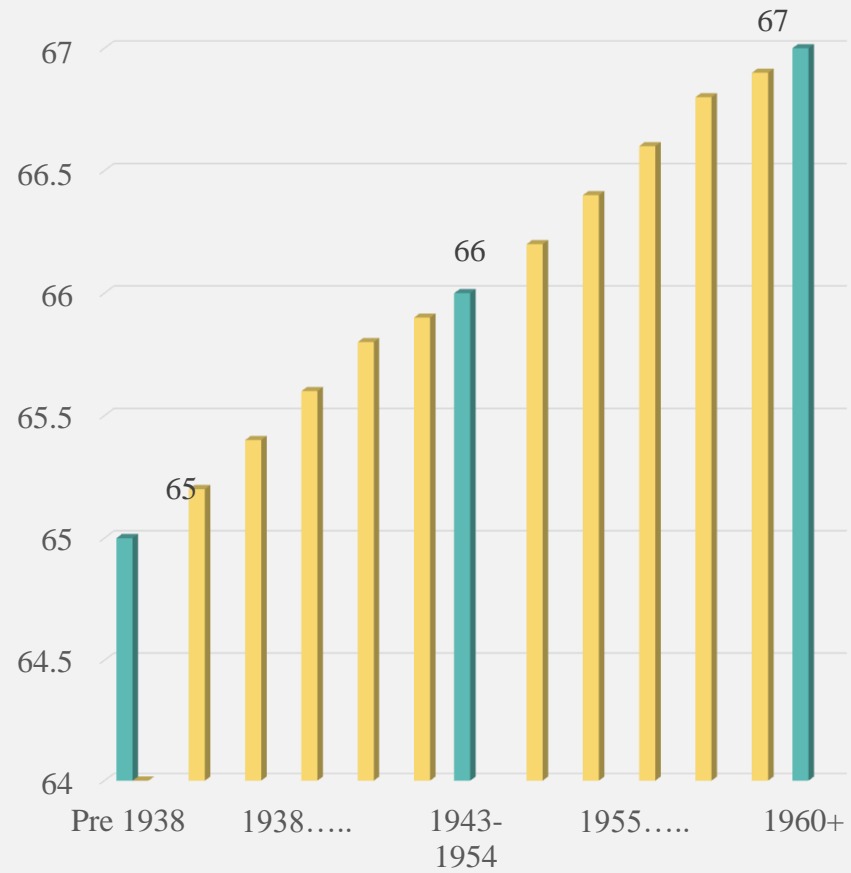
- Request a record of your earnings
- Social Security Statement
  - [www.socialsecurity.gov](http://www.socialsecurity.gov)
  - Create a Social Security account
  - Only available during hours of operation
- Important: Verify your earnings record!
- Effective 2011, Social Security suspended issuing the annual statement.





# RETIREMENT PLANNING

## *Social Security – Full Retirement Age*



# RETIREMENT PLANNING

## *Social Security – Effect of Early Retirement*

	Normal Retirement Age		
	65	66	67
67			100.0%
66		100%	93.3%
65	100.0%	93.3%	86.7%
64	93.3%	86.7%	80.0%
63	86.7%	80.0%	75.0%
62	80.0%	75.0%	70.0%

# RETIREMENT PLANNING

## *Social Security – Taxation*

### Single

- 0% if under \$25,000
- 50% if \$25,000–\$34,000
- 85% if over \$34,000

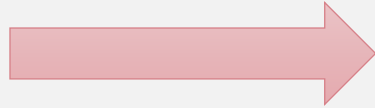
### Married Filing Jointly

- 0% if under \$32,000
- 50% if \$32,000–\$44,000
- 85% if over \$44,000

50% and 85% refers to percentage of the Social Security benefit that is reportable as income for tax filing purposes

# RETIREMENT PLANNING

Three Major Sources of  
Retirement Income



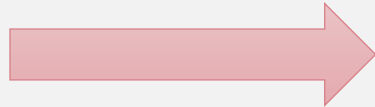
Employer-Sponsored Plans

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Investments

# RETIREMENT PLANNING

Three Buckets of Savings



Tax-Free

Roth IRA and Roth 401(k)

Ordinary Income

IRA, 401(k), 403(b), TSP

Ordinary Income/Capital  
Gains

CD, Bank Account, Bonds

# RETIREMENT PLANNING

## *Should You Establish a Roth IRA?*

- Non tax-deductible contribution
- Tax-free earnings accumulation
- Tax-free qualified withdrawals
- No mandatory distributions
- Catch-up contributions, subject to eligibility

### Tax break now



#### Traditional IRA

You get your tax break up front and pay no taxes on the money you put in until you withdraw it.

### Tax break later



#### Roth IRA

The money you deposit has already been taxed. You pay no taxes when you make withdrawals after age 59½.

# RETIREMENT PLANNING

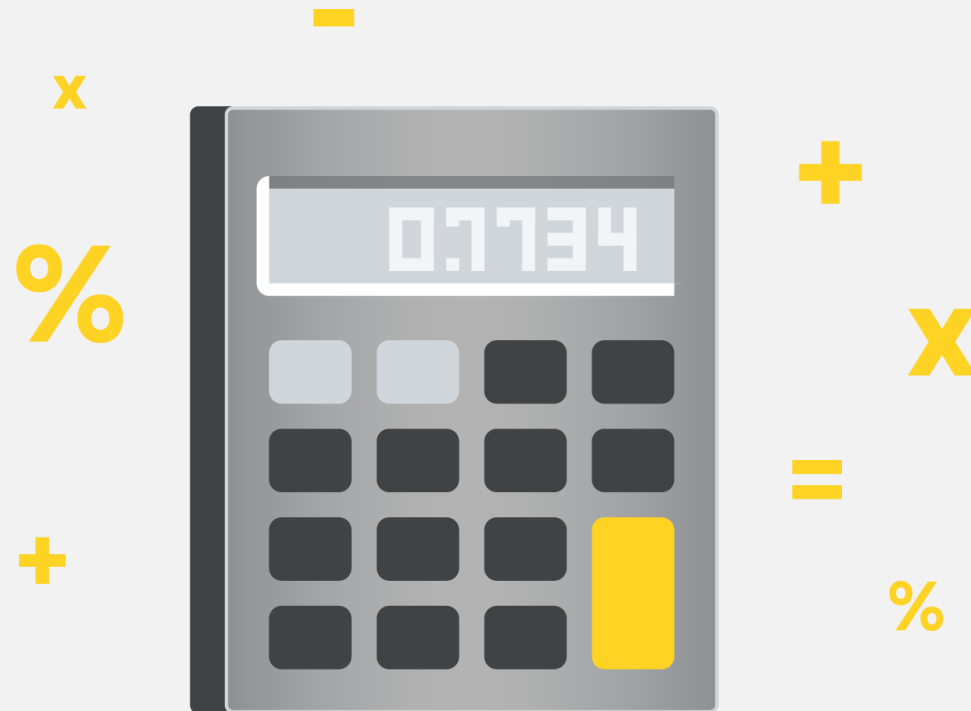
## *Calculating the Cost of Retirement - Ballpark E\$timate®*

- The Ballpark E\$timate is an easy-to-use, two-page worksheet that helps you quickly identify approximately how much you need to save to fund a comfortable retirement.
- Complete the worksheet online and let the computer do the math.
- [www.choosetosave.org](http://www.choosetosave.org)
- Federal Government Employees Ballpark E\$timator:
  - Includes projected Federal annuity and Thrift Savings Plan benefits to help you quickly identify approximately how much you need to save to fund a comfortable retirement.
- The current version does not perform estimates for employees:
  - Retiring under MRA + 10 rules
  - Covered under special computation rules (firefighters or law enforcement officers)
  - Former employees entitled to a deferred retirement

# RETIREMENT PLANNING

## *Calculating the Cost of Retirement – Federal Calculators*

- [www.fedcalc.com](http://www.fedcalc.com)
- Multiple calculators:
  - Retirement Gap Calculator
  - How Soon Can I Retire?
  - FERS Annuity Calculator
  - Full Retirement Analysis
  - Thrift Savings Plan Calculator
  - Military Deposit Calculator
  - Social Security Calculator





# RETIREMENT PLANNING

## *5 Years Before Retirement*

- Confirm enrollment in FEGLI in order to keep benefit post-retirement
- Confirm enrollment in FEHB in order to keep plan eligibility post retirement
- Maximize contributions to TSP account
- Begin paying off any loans on the TSP- Must be paid off prior to retirement or loan amount is considered as a taxable event.
- There is no five-year requirement for continuing FEDVIP into retirement like there is for the Federal Employees Health Benefits (FEHB) Program.



# RETIREMENT PLANNING

## *1 Year Before Retirement*

- Determine best date to retire- Plan to submit paperwork at least 60 days in advance
- Finalize plans for best TSP options upon separation form service
- Determine amount of cash on hand required to transition from work to retirement (2-3 months)
- Review and revise, if necessary, all beneficiary designations
- Finalize Survivor Annuity election



# RETIREMENT PLANNING

## *6 months to Retirement*

- Choose your exact retirement date
- Contact the Social Security Office
- Complete an application for retirement ([www.socialsecurity.gov](http://www.socialsecurity.gov))
- Verify service deposit will be paid prior to retirement
- Submit your application for retirement minimum 60+ days in advance
  - Submit SF 2818 FEGLI election form
- Determine your best TSP options

# RETIREMENT PLANNING

## *Best Dates to Retire*

Calendar Year	Leave Year: Beginning Date to Ending Date	Best Days to Retire CSRS/CSRS Offset Employees	Best Days to Retire FERS/"Trans" FERS Employees
2020	1/5/2020 to 1/2/2021 (26 pay periods)	Jan. 3, Feb. 1, Feb. 29, Mar. 28, Aug. 1 and Aug. 29	Feb. 29, Mar. 28, Aug 29. and Dec. 31
2021	1/3/2021 to 1/1/2022 (26 pay periods)	Jan. 2, Jan. 30, Feb. 27, July 3, July 31 and Aug. 28	Jan. 30, Feb. 27, July 31, Aug. 28 and Dec. 31
2022	1/2/2022 to 12/31/2022 (26 pay periods)	Jan. 3, Jan. 29, Feb. 26, July 2, July 30, Dec. 3, Dec. 31	Jan. 28, Sept. 30, Dec. 31

# TODAY'S PRESENTATION SUMMARY

- 1) Check Social Security Benefits Estimate [www.ssa.gov](http://www.ssa.gov)
- 2) Consider age election for Social Security benefits (Age 62-70)
- 3) Review/Select Federal Employee Health Benefits (FEHB) health insurance coverage
- 4) Review Federal Employees Group Life Insurance (FGLI) program choices
- 5) Consider enrolling in long term care insurance
- 6) Make election for the Thrift Savings Plan (30 days post-separation)
- 7) Future Medicare enrollment (Enroll up to 90 days before or after attaining age 65)
- 8) Consider Survivor benefits election payable upon the death of a CSRS or FERS employee or annuitant (Election is made when filing for an immediate retirement annuity CSRS/FERS)
- 9) Married federal employees should be aware of surviving annuity options for their spouse  
(Required for spouse/dependents to continue eligibility for health insurance)
- 10) Create/update estate planning documents (Wills, DPOA-Financial & Health Care, Trust, HIPPA)



**Randall P. Hallier, CFP®**

5454 W. 110<sup>th</sup> St  
Overland Park, KS 66211  
Phone: (913) 269-3151  
Fax: (888)243-9402

**[randy.hallier@creativeplanning.com](mailto:randy.hallier@creativeplanning.com)**